

Major puts UK view to Santer

By Kevin Brown, Political Correspondent

Mr Jacques Santer, the federal president-designate of the European Commission, got his first formal lecture on the importance of the nation state yesterday from Mr John Major, the British prime minister.

Mr Santer, who takes over from Mr Jacques Delors in the New Year, spent a couple of hours absorbing the British view in the third of a series of meetings with EU heads of government.

The meeting was described as "friendly," but the tone was markedly different to that during Mr Santer's earlier stopovers in Ireland and France.

Mr Major emerged from the meeting at his country retreat to stress Britain's long objection to moves towards a single currency at the next intergovernmental conference in 1996.

"I don't think the IGC in 1996 has anything to do with a single currency," Mr Major said, confirming the British view that the issue of monetary union was settled in the Maastricht treaty.

Mr Major won some support from Mr Santer for his objection, forcefully expressed in a speech in The Netherlands last week, to proposals floated by the German CDU party for a core union of five or six member states, excluding Britain.

Mr Santer said it was important for all 12 member states to move forward together. However, he also said that all 12 should achieve the objectives set out by the Maastricht treaty, which include economic and monetary union.

This would conflict with Britain's preference for a union of "variable geometry," in which the member states would be free to reject developments outside core areas such as the single market.

British officials said that Mr Major had made clear Britain's view that the union should concentrate on subsidiarity, deregulation, free trade and enlargement rather than the destruction of the nation state.

Conventional view on labour mobility not borne out by Commission report

Flexibility 'no answer to jobs crisis'

By David Goodhart, Labour Editor

Increased labour flexibility and higher job turnover provided no simple solution to Europe's unemployment problem, the European Commission declared yesterday in its sixth report on Employment in Europe.

The report challenges the conventional view that ease of movement into and out of jobs is a necessary condition of low unemployment.

About 17 per cent of people in work in European Union countries were not in their present job one year ago. But countries which have above average labour turnover, including Spain, where 28 per cent were in a new job, Denmark, the UK and the Netherlands, represent both ends of the spectrum.

Spain, for example, has the highest level of unemployment in the EU and both the UK and the Netherlands are now below the average.

Similarly, at the other end of the mobility scale, the rate of turnover was under 13 per cent in Greece as well as in Italy, and only around 15 per cent in Belgium, Germany and Luxembourg, which also represent wide variations in unemployment rates.

The report, which picks up many of the themes first discussed in the Delors white paper on employment pub-

lished last year, concludes that countries with a low level of external labour market flexibility may compensate with higher flexibility within companies.

The report also reflects the white paper's concern with high non-wage labour costs in Europe and the relatively poor employment creation record compared with the US and Japan. Social contributions in the EU averaged 22 per cent of labour costs in 1991, only slightly above the US figure of 21 per cent while the Japanese figure was 15 per cent.

However, if employer and employee contributions, plus taxes on wages are added together, the average "wedge" between the cost of employing labour to companies and the net earnings which workers receive - is 45 per cent in the EU, 40 per cent in the US and 30 per cent in Japan.

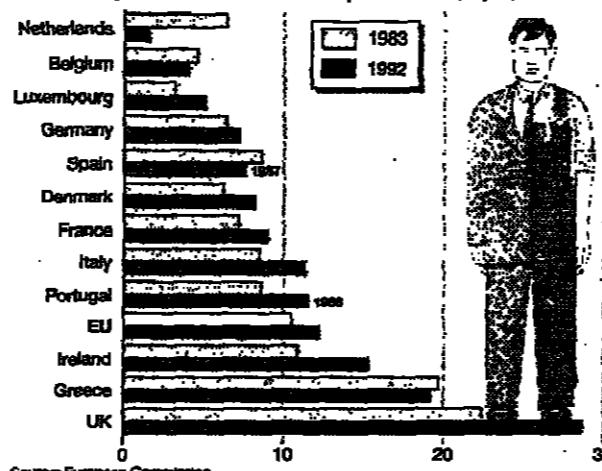
The report says that in nine out of 12 EU countries the non-wage labour costs imposed by government bear proportionately more on workers at the lower end of the earnings scale than on those at the higher end. But the UK is a notable exception.

The only country where differential contributions provide any incentive for employers to take on lower paid workers is the UK," states the report.

The UK government may also draw some comfort from the fact that incentives to work

UK leads the longer-hours league

Men working 48 hours a week or more (% of men employed)



Source: European Commission

are in good order. Unlike most EU countries low pay is a relatively minor source of poverty in the UK.

"Overall in the EU, there are more households which fall below the poverty level of expenditure because of low pay than because of unemployment or disability. Only in four member states - Belgium, the Netherlands, and most especially, Ireland and the UK, where being out of work was the major source of poverty - was this not the case."

Between 1985 and 1992 business services made the largest contribution to employment growth across the EU, account-

ing for almost one in five of the net addition to jobs. But high job losses between 1990 and 1992 occurred in many of the former high growth areas including estate and travel agents and research and development institutes.

The areas of job growth in the EU over the past 20 years have been much the same as in the US and Japan. The most striking difference is not in the areas where employment has risen, but in terms of the scale of job losses which have occurred in declining sectors (particularly agriculture). This seems largely responsible for the lower overall rate of

employment growth in the EU than elsewhere."

Professional and technical jobs, which accounted for only 15 per cent of the total in 1983, were responsible for 40 per cent of the rise in employment between 1987 and 1992.

But there are still marked variations between countries in employment structure. In Germany, for example, 50 per cent more of the workforce are employed in engineering and motor vehicles than elsewhere.

Germany also continues to have a relatively small proportion of its workforce in services. It is sometimes suggested that this is a statistical illusion and that much the same jobs are performed in Germany as elsewhere but they are located in industrial companies rather than specialised services companies. The report maintains otherwise.

"Fewer service activities are performed in Germany than in other comparable European countries - or, at least, fewer people are employed which might possibly be the result of higher productivity in services in Germany than elsewhere."

Most of the people employed in the EU now work in small companies. In 1991, companies with fewer than 100 employees accounted for 55 per cent of those employed in the EU and companies with under 10 employees for about 30 per cent. This is much the same as in Japan.

EUROPEAN NEWS DIGEST

Pilots' strike hits Air France

Pilots at Air France are to strike tomorrow and Saturday after talks on productivity broke down. The strike is a setback for Mr Christian Blanc, Air France's chairman, who wants to raise productivity by 30 per cent by 1997 as part of a rescue package. Last year, the ailing state-owned carrier suffered losses of FF 16.4bn (£1.02bn). The SNPL pilots union opposes plans to cut flight bonuses while Mr Blanc claims the pilots' counter proposals on productivity would increase average pay by about 10 per cent. "No company, even the most flourishing," he said in a letter to the union. Air France said it could guarantee about a third of medium-range international flights tomorrow and Saturday and hoped to run more long-range flights. The SPAC, the second and smaller pilots' union, is also taking action. John Riddiford, Paris.

OECD rivalry intensifies

Ambassadors of the 25 members of the Organisation for Economic Co-operation and Development met yesterday and again failed to resolve the Franco-Canadian rivalry for the secretary-generalship, increasing the prospect of no decision before the term of the French incumbent, Mr Jean-Claude Paye, ends on September 30. The only new development this week came with the withdrawal of Mr Lorenz Schomerus, the German candidate who had been holding up the rear of the pack in the race. This probably gives one further vote to Mr Paye, who is running for a third five-year term and who may now have a majority of OECD governments behind him. However, the OECD takes decisions by consensus, and the US has so far given no indication of withdrawing its strong support for the Canadian candidate, Mr Donald Johnston. Washington argues it is time for the organisation to be run by a non-European, and has brought Japan, Mexico, Australia and New Zealand into the Johnston camp. David Buchan, Paris.

Gonzalez submits to questions

Mr Felipe Gonzalez (left) yesterday took a leaf out of the British parliament's book when he inaugurated a prime minister's question time, but his answers dealt a blow to his government's efforts to engineer a restrictive budget. In his first appearance in what will be a weekly 15-minute interrogation by the lower house in Spain's Cortes, Mr Gonzalez effectively promised that pensions would be indexed to inflation. He said that while he was in government there would be an "extraordinary payment" to pensioners when their income was overtaken by price rises. The commitment will place a considerable burden on the government's economic team as it tries to craft a budget that will reduce the public deficit next year to 5.9 per cent of GDP, down from 6.9 per cent this year. The question time forms part of an effort by Mr Gonzalez to regain the initiative following strong gains by the opposition conservative party in June's European elections. Since he gained power in 1982, the prime minister has only attended major parliamentary debates. Tom Burns, Madrid.

Germany can keep PCP ban

Germany can continue its ban on pentachlorophenol (PCP), the disinfectant used for wood preservation and textile treatment, the European Commission said yesterday. The ruling will appeal to ecology-conscious Sweden which is about to hold a referendum on EU membership. It means countries can apply higher environmental standards than their EU partners in selective areas, despite the general requirement for harmonisation in the internal market. Last May, the European Court of Justice declared void the original Commission decision to uphold Germany's PCP ban. It was the first Court ruling on the application of treaty legislation allowing exemptions from EU legislation on the internal market. Yesterday, the Commission justified its second decision by referring to unusually high PCP levels in Germany. Lionel Barber, Brussels.

Czech coffee 'cartel' fines

The Czech economic competition ministry has imposed "significant" fines on two local coffee market leaders for using what it calls cartel-style tactics to raise domestic coffee prices. The ministry has started legal action against the Czech Coffee Union (CKS), an industry lobby group, and two of its members, Tchibo Praha and Balirny Douwe Egberts, accusing them of co-ordinating a policy of gradually increasing prices. In July, the CKS asked domestic producers to raise coffee prices by 10 per cent monthly to fall into line with the general surge in world prices caused by two severe frosts which ravaged plantations in Brazil. Local packager Balirny Douwe Egberts, a subsidiary of Dutch-American firm Douwe Egberts, increased its prices by 10 per cent at the start of July, as did the local market leader, German retailer Tchibo Praha. According to the ministry, domestic coffee prices have now increased by more than 50 per cent since the CKS issued its request. Between them, Balirny Douwe Egberts and Tchibo Praha are reported to hold 75 per cent of the Czech coffee market. Reuter, Prague.

Lukoil seeks western investors

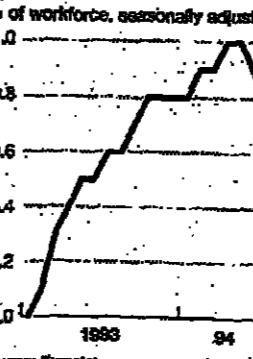
Lukoil, Russia's biggest oil producer, plans to float shares on western stock exchanges once domestic privatisation is completed next year, the company vice-president, Mr Vladislav Berezov, said yesterday. The company has discussed prospects for floating shares in New York or London with exchange officials and Mr Berezov said foreign investors had shown interest. However, foreign listings might be a long way off as the company's books would probably have to be examined by an international auditing firm. Reuter, Moscow.

ECONOMIC WATCH

EU unemployment falls

EU unemployment

% of workforce, seasonally adjusted



Source: Eurostat

1983-84

1985-94

1987-94

1989-94

1991-94

1993-94

1995-96

1997-98

1999-2000

2001-2002

2003-2004

2005-2006

2007-2008

2009-2010

2011-2012

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2015-2016

2017-2018

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2075-2076

2077-2078

2079-2080

2081-2082

2083-2084

2085-2086

2087-2088

Energy crisis deepens for ex-Soviet states

By John Lloyd in Moscow

An energy crisis more severe than any since the collapse of the Soviet Union now threatens Russia and its neighbouring states - as oil output and inter-enterprise debts in Russia continue to worsen and the other members of the Commonwealth of Independent States sink deeper into debt to Russia for energy supplies.

Mr Yuri Shafraznik, the oil minister, said that the payments crisis in the industry meant that preparations for the autumn and winter surge in energy use were "strained". At the same time, increasing debts to Russia in Ukraine and Belarus now threaten the provision of oil and gas to these hard-hit states.

Mr Shafraznik told a meeting of a government committee on the day-to-day running of the economy that oil output in the first seven months of the year was down by an average of 62,000 tonnes a day on the same period last year, and 4.72m down on the planned level for that period. The min-

ister expects the output of the year to be 29.1m tonnes of oil and gas condensate - 6.5m tonnes less than the forecast level and just over 500 tonnes down on last year's estimated production level of 35.5m tonnes.

In the refineries, worst hit by the debt crisis, only 104.5m tonnes were refined with a planned level of 128.5m tonnes.

Mr Shafraznik said that 26.4 per cent of the oil wells in Russia were standing idle.

With Russia's oil and gas supplies increasingly directed towards western hard currency markets, the drop in output seems certain to mean a further cut in the already relatively meagre energy exports to CIS countries - but said that a schedule of payments by this kind of barter had not been agreed.

The position in the other republics is generally worse - with the two Caucasian republics of Georgia and Armenia unable to pay for the supplies they presently receive and which are constantly under threat.

half to 100,000 cubic metres of gas a day, and yesterday warned it would immediately cut supplies to the Kharkov region by 40m cubic metres a day. According to the interfax news agency, Ukraine agreed to pay \$300m in August and September for gas supplies, but paid only 30 per cent of the amount.

In Belarus, Mr Stanislav Bogdanovich, chairman of the central bank, told the Tass news agency that the state owed Russia \$1.000bn (230.5m) for energy supplies and that the debt was rising.

He said that Russia had proposed the debt be paid by goods and industrial production, and by shares in Belarusian enterprises - but said that a schedule of payments by this kind of barter had not been agreed.

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Swedes offered few promises on jobs

By Christopher Brown-Humes in Stockholm

Some Swedish companies used to employ 30 per cent more staff than they needed - just to cover for those who did not turn up to work on a particular day. During the SWEDISH three-year ELECTIONS recession, September 18 declined dramatically and a shake-out in companies helped to speed up the increase in unemployment.

In the run-up to Sweden's election on Sunday, even the optimists have accepted that the country will never return to the halcyon days of the late 1980s when unemployment was below 2 per cent. Although much of the election campaign has centred on the state of the public finances, unemployment has been a recurrent theme in public meetings and in the *valssaga* - the street corner hints erected in their thousands by political parties at election time.

Sweden's unemployment has soared to 14 per cent (including those on training schemes) from below 5 per cent in just three years. This has played havoc with state finances because of lower tax revenues and heavy funding costs. It is also an unprecedented trauma in a country with little experience of unemployment. The country's current plight represents one of the biggest failures of the Swedish model which was supposed to deliver job security in return for labour market restraint.

The multinationals laid off as many as 20 per cent of their employees between 1991 and 1993 to improve productivity and regain competitiveness.

With the economy recovering, there is clear evidence that unemployment is past its peak. But 600,000 people are still out of work, including those on training schemes. Last year the problem cost Sweden SKr6bn (5.6bn), or 5.7 per cent of GNP, a level only exceeded by Finland and Denmark in the OECD area, and accounted for nearly half the entire budget deficit.

None of the parties is offering dramatic or easy solutions. The Social Democrats, who look likely to return to power, have detailed a specific programme for creating 90,000 new jobs in their first year of office, emphasising infrastructure programmes and favourable tax treatment for investments. The ruling centre-right coalition wants to improve the overall business climate, saying it can create 500,000 new private sector jobs by the end of the century.

What unites the parties is a common acceptance that the new jobs will have to be found in the private sector. This is itself a breakthrough in a country which saw all of its employment growth between 1960 and 1983 derive from the public sector.

What distinguishes the programmes is emphasis. The Social Democrats believe active government policies can have an impact, even in the short term. But they differentiate companies from their owners, giving the former much more favourable tax treatment. Government policies are more long-term, and there is more stress on providing incentives for the start-up of new business.

One reason for urgency is that Sweden wants to tackle long-term unemployment before it becomes entrenched. This is why the Social Democrats reject the type of tough fiscal and monetary strategy pursued by Denmark in the 1980s because they say it has led to a permanently high level

of long-term unemployment. If they act now, they believe, they can 'stop labour market bottlenecks stimulating inflation when unemployment falls to a certain level, the so-called non-accelerating inflation rate of unemployment.'

Backing up this emphasis, her party aims to ensure that young people are not out of work for more than 100 days.

There is a belief that the upturn in the economic cycle will at least get the unemployment figure down to half its current level. But will it? US experience suggests that most job creation in a modern western economy comes from services. And it is here that Sweden clearly has further to go, partly because there is a cultural resistance to the creation of a low-wage service sector. Opponents say颇有见地 that they don't want to turn the country into a 1920s-style 'maid' society.

There is also resistance to any further lowering of unemployment benefits which have already been cut from 90 per cent to 80 per cent of former salary. Mr Lars Jäger, an economist with the Federation of Swedish Industries, believes Sweden will have to look again at both wage differentials and unemployment benefits if it wants to make real progress on unemployment.

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NEWS: THE AMERICAS

Troops needed to establish order even if junta goes quietly, official says

US 'committed to occupation of Haiti'

By Jurek Martin in Washington

The US is committed to leading a temporary multinational occupation of Haiti even if the military junta in Port-au-Prince agrees to leave the island immediately, according to a senior administration official yesterday.

In a preview of President Bill Clinton's pivotal televised address to the nation tonight, Mr Strode Talbott, deputy secretary of state, said the presence of such a force would be required to establish "basic civic order" before the restoration of the ousted government of President Jean-Bertrand Aristide.

Asked if anything could now prevent the invasion of Haiti, he replied that even if "belatedly" the three principal dictators get the message and leave, it will still be necessary for an international force to be deployed anyway.

Mr Clinton's challenge tonight is severe, given the extent of political and public doubts about the wisdom of US involvement in a country whose intrinsic importance to the US is doubted.

Other senior officials, includ-

ing Mr Warren Christopher, secretary of state, and Mr Leon Panetta, White House chief of staff, have given interviews preparing the ground for Mr Clinton.

But there is no ultimate substitute for the president, as commander-in-chief, to make the case for despatching US forces into danger, even when, as in Haiti, the strength of military opposition is probably negligible.

Mr Talbott was intent on minimising the likely longer-term US exposure and maximising international support for the operation. He repeated that, after the initial invasion, the multinational force from 20 or more countries would comprise about 6,000 personnel, less than half of them Americans.

"This is not an exercise in nation-building," he said, and any temptation in the direction of "mission creep" for US forces, as happened in Somalia, would be resisted once civilian rule had been restored.

Mr William Perry, secretary of defence, seemed to leave some room for manoeuvre by not ruling out a concrete deadline for the departure of the

Picture: Reuters



Primary boosts Marion Barry comeback

By George Graham
in Washington

Mr Marion Barry's resounding victory in Tuesday's Democratic primary ballot puts him just one step away from reclaiming the office of mayor of Washington, which he lost four years ago when the Federal Bureau of Investigation arrested him on cocaine charges.

Mr Barry's campaign has seemed at times to be less a political comeback than a personal resurrection, but he won

47 per cent of the primary votes, seeing off Councilman John Ray, his principal rival, and crushing Mrs Sharon Pratt Kelly, the incumbent mayor.

In overwhelmingly Democratic Washington, Mr Barry's primary victory is expected to guarantee him victory in the November election, even though his Republican and independent opponents are expected to reap an unusually large number of "anyone but Barry" votes.

In a victory speech, Mr Barry promised that God's power,

which had redeemed him from sin, would "lift the city of Washington off its knees".

But his comeback seems likely to place Washington, which is the US capital, remains under the supervision of Congress and has only enjoyed limited self-rule for the last 20 years, under much tighter scrutiny.

The congressional committees overseeing Washington's spending forced Ms Kelly to cut her budget this year, and they are expected to keep Mr Barry, who spent freely in his

12 year tenure as mayor, on a very short financial rein.

"It's a sad commentary and

something every American has

to come to grips with that you

could have people in a city like

Washington so desperate that

they would vote for a convicted

felon with a totally failed

record, and a man who clearly

is going to have an impossible

time trying to deal with the

Congress," said Congressman

Newt Gingrich, who is likely to

win over as the Republican

leader next year.

In other closely fought pri-

Judge blocks shipments of N-fuel

By George Graham

A US federal judge has blocked shipments of spent nuclear fuel from European research reactors, throwing into chaos the US's policy of reducing the volume of bomb-type highly enriched uranium in use around the world. The move also jeopardises US credibility in talks under way in Geneva on renewing the Nuclear Non-Proliferation Treaty.

Judge Matthew Perry granted an injunction to the state of South Carolina barring the Department of Energy from storing 400 fuel rods from Europe at the Savannah River nuclear plant.

The department is expected to appeal against the decision, which has nevertheless thrown a spanner into the US's 30-year-old off-site fuel programme, under which the US agreed to accept spent fuel from participating foreign reactors in exchange for their commitment to switch to less dangerous low enriched fuel.

Although environmentalists and nuclear non-proliferation advocates have joined forces to back the department's decision to accept the fuel, Governor Carroll Campbell of South Carolina has fought against it.

Governor Campbell is putting at risk a key element of US efforts to prevent the spread of nuclear weapons," said Mr Paul Leventhal, president of the Nuclear Control Institute, a Washington-based group.

The trust of the European reactors who signed up for the off-site fuel programme was stretched to breaking point when the US broke its side of the bargain for five years, following a lawsuit brought by environmentalists.

Some developing countries point to the US's failure to live up to its commitments as a good reason why they should not agree to an indefinite extension of the NPT.

Amnesty in plea to Brazil on human rights

By Angus Foster in São Paulo

Amnesty International yesterday called on candidates in next month's Brazilian elections to make human rights a priority for the next government. In a report highlighting several recent cases of human rights abuse in Brazil, Amnesty also made several recommendations for improving the judicial system as well as the police, who have been implicated in several of the worst abuses.

"The killings and torture can only be stopped if the people elected to government give a high enough priority to actively promoting and protecting human rights," said the report.

The report contained a summary of some of Brazil's recent highly publicised human rights cases. These include the 1992 prison massacre at Carandiru in São Paulo, when 111 prisoners were killed by police, and last year's murder of eight street children in Rio de Janeiro.

Amnesty also highlighted

the problems faced by Brazil's overcrowded prison system and the alleged involvement of off-duty police in "death squads" hired to kill petty criminals or drug rivals.

Brazil has tended to accept, sometimes grudgingly, human rights criticism. Complaints about the São Paulo police following the Carandiru massacre led to a sharp fall in the number of civilians killed by the police, from more than 100 a month to about 20 a month.

Amnesty said Brazil's police needed "radical change" in its organisational culture and operations. At present, members of the police are tried in military courts, a hangover from Brazil's 1964-85 military rule.

The report contained a summary of some of Brazil's recent highly publicised human rights cases. These include the 1992 prison massacre at Carandiru in São Paulo, when 111 prisoners were killed by police, and last year's murder of eight street children in Rio de Janeiro.

Amnesty is due to meet the two frontrunners in the presidential elections, Mr Fernando Henrique Cardoso and Mr Luiz Inácio Lula da Silva, tomorrow.

Beige Book points to uneven growth

By James Harding
in Washington

US economic activity continued to expand over the summer, though unevenly, according to two government reports released yesterday.

The Beige Book, the survey by Federal Reserve Districts of regional economic activity, said: "Regions that have been lagging are generally said to be doing better, while most of the stronger areas saw growth plateau."

US Commerce Department advance monthly retail sales

figure showing a 0.8 per cent rise in August, marking a 7 per cent increase on the same period a year ago.

The Beige Book, prepared for use at the Federal Open Market Committee meeting on September 27, follows the August 3 report which showed economic activity growing at a solid pace in most parts of the country.

The FOMC meeting of August 16 raised interest rates by half a percentage point.

The expansion in consumer spending is seen as "healthy albeit decelerating", the report said yesterday.

Welcome for US banking bill

By George Graham

Bank industry lobbyists in Washington breathed a sigh of relief yesterday after the Senate finally passed a bill to allow banks to set up branches more freely outside their home states.

Sweeping aside last-minute objections to some of the miscellaneous provisions attached to the bill, the Senate voted 94-4 on Tuesday in favour of a measure that some of its backers had feared might once again get bogged down in the legislative process and expire without a vote before Congress breaks up next month to campaign for the November 8 elections.

Mr Lloyd Bentsen, the Treasury secretary, said the bill was "a major step forward for the American banking system" that had been sought by the last four administrations.

"Interstate banking and branching will be beneficial to banks and their customers as well as the nation's economy as a

whole. This bill will allow banks to reduce expenses by structuring themselves more efficiently," Mr Bentsen said.

Key points of the banking bill include:

- Bank holding companies may acquire a bank in any state, starting in one year.
- Banks in separate states may merge, from June 1, 1997, unless either state has "opted out" by passing a law to ban such interstate mergers.

- Banks could open new branches outside their home states only if states "opt in" by passing a law to allow it.

- Foreign banks would have the same right to open new branches as US banks, whether they operate in the US through a separate subsidiary or through a direct branch from their home country. But foreign banks could be required to establish a subsidiary if US bank regulators deem it necessary to verify their capital adequacy.

- A separate measure would extend the statute of limitations to allow the federal regulators to revive claims against off-

icials of failed savings and loans or banks in cases of egregious fraud or intentional misconduct, but not of simple negligence.

Over the past 15 years, the state-by-state compartmentalisation of the US banking system has gradually broken down. Only a handful of states still forbid any acquisition of their banks by out-of-state bank holding companies.

At the same time, the inconveniences for customers have diminished as nationwide cash machine networks allow consumers to withdraw cash when they leave their home state.

But much of the consolidation has been regional, and banks currently do not accept deposits across state lines – even from customers of their own affiliates.

For example, someone who works in Washington DC but lives in the Maryland suburbs is not allowed to deposit a pay cheque in a Washington branch of Riggs Bank, even though he or she has an account at Riggs in Maryland.

New look for industry on way

Banks have already found ways round laws, reports Richard Waters

With ill scrapping the remaining barriers to nationwide banking, the US banking industry is being reshaped by the US banking industry. The question has been debated in bank boardrooms for years. Now, with the final passage of the bill, it is time for the reckoning.

In some ways, the adoption of full interstate banking should make little practical difference. Thanks to changes to state laws in recent years and the growth of finance company subsidiaries, many banks have already extended their reach around the country.

The legislation that prevented interstate banking came in two parts. First, in 1927, the McFadden Act effectively prohibited banks from running branches in other states. The Douglas Amendment to the 1966 Bank Holding Company Act prohibited the takeover of banking companies in other states, unless those states' laws specifically allowed it. At the time, none did.

These laws have less force than they once did. In 1975, Maine became the first state to allow out-of-state institutions to buy local banks. Sixteen others have followed suit, while 26 more allow ownership by holding companies based in states which give reciprocal rights.

States have also relaxed bank takeover laws in times of financial distress to let outsiders rescue troubled local institutions.

In Texas, the three biggest banks succumbed to the

real estate collapse of the

1980s. Chemical Banking of

New York, NationsBank of

North Carolina and BancOne of Ohio now control nearly 40 per cent of Texas' banking deposits, equivalent to \$600m at the end of 1992.

This encroachment of banks across state lines through acquisition has taken hold rapidly in a few years. At the end of 1992, more than a fifth of all bank assets in the US were in the hands of out-of-state institutions, compared with just 6 per cent in 1987.

Where they have not expanded through acquisition, banks have found ways around the legal barriers. One approach has been to hive off their fast-growing consumer businesses, such as credit cards, into non-bank companies which can operate outside the scope of banking legislation.

Chase Manhattan, the New York money-centre bank, owns a string of finance companies.

"We couldn't expand in the traditional way, we were prohibited," says Mr Arthur Ryan, bank president. "But in hindsight, we found that it was a very effective way of doing it."

Despite these inroads, considerable obstacles to interstate banking remain.

One is the so-called South-Eastern Compact, a loose arrangement between states in the region. Designed to protect local institutions from takeover by powerful New York banks, the compact has of late had the effect of hindering banks based in the region which want to expand elsewhere in the country. One by one, states in the south-east

have already started to pass local laws to drop their restrictions.

another flurry of big acquisitions. Mr Robert Gillespie, president and chief operating officer of KeyCorp, which itself vaulted into the top 10 with a merger this year, says of the legislation: "It doesn't change the economics of the industry, but it gives everybody an excuse to make acquisitions."

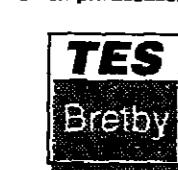
No-one wants to get left without a chair when the music stops."

Some mergers are already justified on the grounds that interstate banking will make local banking markets more competitive. Last month two North Carolina banks, BB&T Financial and Southern National, merged to form an institution with assets of \$16bn.

These are issues being debated by bank boards around the country. Mr Leo Mallon, president of First Chicago, says: "There is not an essential reason why we have to merge, or be acquired. But having said that, there's no question that certainly [our] businesses benefit from scale."

If we could hook up with the right situation, there's no doubt it would be useful."

And, although the pace of bank mergers has slowed in recent months, most senior executives in the industry expect the consolidation to continue. "We will see a continuing acceleration of transactions, and the transactions will get bigger," Mr John McCoy, chairman of BancOne, said recently. It is a view widely shared by his counterparts in other banks. The only thing they are not agreed on is who will be next.



Naira falls as Nigeria forex fears grow

Businesses turn to other sources on worries that supply may run out by end of the year

By Paul Adams in Lagos

Fears that Nigeria's official supply of foreign exchange will not last until the end of the year have sent the naira tumbling on the black market since late August as businesses turn to other sources of foreign currency for imports.

The street value of the naira to the dollar has fallen from N55 to N66 in the past fortnight, while the government continues to allocate scarce dollars at N22, or one-third of the black market value.

The Central Bank of Nigeria's allocation of \$100m (256.6m) for this month met only 3 per cent of demand and takes the total allocated this year to \$1.4bn.

The government has cut its budget for allocations of foreign exchange to the private sector from \$2.5m to \$1.5m.

Many bankers and importers expect another cut in this target by the end of the year, which would leave manufacturers short of goods and materials and further depress the unofficial value of the naira.

In January, General Sani Abacha's regime banned the parallel foreign exchange market and centralised all currency transactions through the Central Bank of Nigeria (CBN) at an official exchange rate of N22 to the dollar.

The US embassy in Lagos recently exchanged dollars at a rate of N62, almost three times the official rate, through authorised banks.

An embassy spokesman said the rate was approved by the Nigerian government. This privilege is denied to private

sector exporters wishing to bring back their export proceeds.

In May, a committee under Mr Samuel Ogotemba, labour minister, took control of currency allocations, including 15 per cent of the official supply which went to 'priority users'.

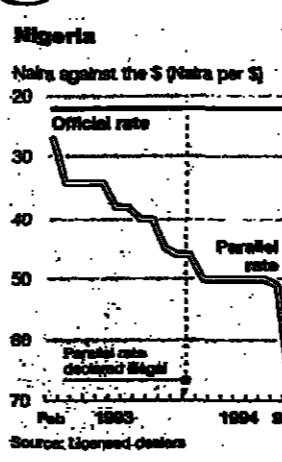
These often went through middle men who demanded a premium of about N8 a dollar for an allocation at the official rate. The committee has been disbanded from this month.

The black market devaluation also reflects recent politi-

cal instability and fears that government spending will push up inflation.

Western economists say the government deficit is heading towards last year's level of 17 per cent of gross domestic product, despite a budget forecast of zero deficit.

Sharp increases in transport and food costs during the recent oil strike and a flood of freshly-minted bank notes are other signs that inflation, which is already running at 60 per cent a year, could rise even further.



High anxiety for Hurd in Hong Kong

UK foreign secretary flies in as China attacks Jardine group. Simon Holberton reports

standing tough with China on democracy had worked. With conspicuous foreign policy successes elsewhere Beijing could not allow Mr Patten's claim of victory to stand.

Indeed over the past months Britain's isolation from the rest of the world in its policy towards China has deepened.

The UK is the only permanent member of the United Nations security council in conflict with China. Over the past six months the US, France and Germany have all moved to repair relations with Beijing by downplaying human rights and emphasising trade and economic development.

British officials say they still remain optimistic that at the end of the day China will agree terms on airport finance. They are more concerned about the port because Beijing appears to have made its approval contingent on the ejection of the Jardine group from a consortium extending the facility.

One senior British official said it would not improve Hong Kong's position as a place to invest if business people had to look over their shoulder to the political master.

What concerns the UK more, however, is China's attitude to the work of the Joint Liaison Group (JLG), a bilateral commission established by the 1984 Joint Declaration to enable a smooth transfer of sovereignty in 1997. The JLG shows every sign of being moribund. Since 1992 it has transacted only two significant pieces of business - the 1991 agreement on Hong Kong's court of final appeal, and the military lands agreement of this June.

Mr Patten warned last October, when opening the 1993/94 session on the LegCo, of a legal vacuum in Hong Kong after the resumption of Chinese sovereignty if the JLG did not get moving on "localising" Hong Kong's law. Progress has been glacial.

Patten warned of a legal vacuum. Progress has been glacial



OBSTACLES OVERCOME: Yasser Arafat (left) and Israeli foreign minister Shimon Peres sign the Oslo accord to speed PLO aid

France welcomes FIS 'release'

By Francis Ghislain

France yesterday welcomed the transfer of two opposition

Islamic Salvation Front (FIS) leaders, Mr Abassi Madani and Ali Benhadj, from jail to house arrest and the freeing of three others, as an important step towards ending the violence which has claimed 10,000 victims in the past 21 months.

The number of bankruptcies fell by 4.1 per cent in August, to 1,143, said Taitoku DataBank, a credit research agency.

It forecast that bankruptcies would run at more than 1,000 per month for the rest of the year, because of competition from cheap imports and a shortage of funds.

dialogue between the Algerian authorities and the FIS is a

would not produce a lasting solution."

The minister cautioned, however, against undue optimism, noting: "It is no secret that the Islamic movement and no doubt the authorities remain divided."

Mr Juppe insisted that France had never "given unconditional support to the Algerian government. While

understanding the concern of

every government to ensure order and security in its country, we have said that a policy focused entirely on security

the central bank of Algeria, in Paris on Tuesday to discuss the restructuring of \$3.1bn (£2.05bn)-worth of the country's \$4.7bn commercial debt.

The banks decided to set up a steering committee which will include two Japanese banks, two Arab banks, one French and one US bank and a Japanese leasing company.

The next meeting between Algeria and its commercial banks creditors will take place in the week after the annual meeting of the International Monetary Fund, due in Madrid in the first week of October.

An apparent thaw has swiftly given way to pessimism

There is also a growing view in the colony that China's latest moves have exposed the contradiction at the heart of British policy towards its last great colonial possession. This policy seeks both an honourable withdrawal from Hong Kong, and a smooth transition to Chinese sovereignty for the colony. Yet, the more Britain pursues honour the more it seems likely that Hong Kong's transition to Chinese rule will be bumpy one.

The optimism engendered by an apparent thaw in relations - the high-water mark of which was an agreement on the distribution of military land in June - has swiftly given way to pessimism in the face of a discernible hardening in Beijing's attitude towards the UK and Hong Kong.

Two months ago a comprehensive settlement to two of the most important outstanding commercial issues - the financing of Hong Kong's new airport, and approval for the extension of the colony's container port - seemed within grasp. Today they appear as remote as ever.

Beijing has already made it known that it expects little from a meeting between Mr Hurd and Mr Qian Qichen, his Chinese counterpart, in New York at the end of the month. The best guess by the British foreign office for the abrupt change in China's position is that Beijing reassessed its posturing in light of the events of June this year.

First there was the Legislative Council's vote at the end of June on Governor Chris Patten's plans to liberalise the colony's 1985 elections. During the current period is just another ebb. They foresee a situation where the two agree the main commercial matters outstanding - the airport, port development, big business franchises which need Beijing's blessing - later than would be optimal but nevertheless in time. JLG matters, such as localising Hong Kong's law, may well be left right up until the last months of British rule.

Sumitomo Bank chief murdered

By Gerard Baker in Tokyo

A 54-year-old executive of one of Japan's largest banks was shot dead yesterday outside his home. Mr Kazumitsu Hatano was the director of Sumitomo Bank's Nagoya branch.

The murder was the latest in a series of attacks on employees of the bank and its related companies. Between February and May last year 22 incidents were reported, including fire-bomb attacks on the home of a bank vice-president and shootings at branches in Tokyo and Yokohama.

The president of the bank, Mr Sotaro Tatsuji, received three threatening letters containing razor blades at his home in Kobe during the same period.

Police said yesterday there was no immediate suspect or motive, but they are understood to be investigating possible links between the attacks and problems the bank has been having with alleged organised crime members.

Sumitomo is trying to collect bad debts from customers to whom it extended large numbers of property-related loans in the late 1980s.

Other companies have reported a sharp increase in attacks on their employees in the last year. A vice-president of Hanwa Bank was shot dead in August last year, and in February this year, an executive of Fuji Film Co was stabbed to death in front of his Tokyo home.

Companies have paid large sums to gangs to prevent them from disrupting shareholders' meetings. Yesterday, Kirin Brewing Company was ordered to pay more than ¥90m (5582.000) in penalty tax for concealing income of ¥180m in an extortion scandal, understood to be related to gangster activity.

Setback for shop discounts

By William Dawkins

The sales division of Shiseido, Japan's largest cosmetics producer, yesterday won court clearance to refuse to supply its goods to Fujikyu, a discount retailer.

The Tokyo high court decision, on an appeal by Shiseido, is an unexpected legal setback to the growth of discounting in Japan's high-street retailing industry and conflicts with a three-year-old fair trade commission ruling, in favour of cut-price cosmetics.

The FPC, which is independent from the courts, is expected this year to pass judgment on a similar row between Kawachiya, another cosmetics discounter, and Shiseido.

Shiseido was told by a dis-

trict court a year ago that it had contravened anti-monopoly laws by stopping sales to Fujikyu, which was offering 20 per cent discounts on Shiseido goods.

Furthermore, trade union membership has started to rise again after contracting over the past few years, and, at 37.2 per cent of the workforce, is the highest in the developing world.

But rather than the celebrations that were expected, the national congress last week of the 1.3m-strong Congress of South African Trade Unions, the country's most powerful labour federation, proved to be an occasion for heated discussion and soul-searching as the movement sought to redefine its role.

The FPC had earlier investigated the dispute and ruled in 1991 that Fujikyu's sales practices were legal. Mr Kimchi Takahashi, the high court judge, yesterday argued that Shiseido had a legal right to demand "face to face" sales contracts, even if this led to higher prices.

To the respectful but unenthusiastic applause, in the opening address President Nelson Mandela praised Cosatu's role in the anti-apartheid struggle, but called on workers to think of the country's 3m unemployed rather than looking just to their own relatively privileged position.

The ANC has also clashed with Cosatu on the issue of industrial restructuring, and union members reacted

now," he warned.

The speech served as a reminder of the challenges faced by the labour movement in the new era. Despite the fact that Cosatu's formal political allies, the African National Congress and South African Communist party, dominate the ruling government, of national unity, tensions between the labour movement and administration have risen over a wave of strikes by Cosatu affiliates.

Although the ANC remains broadly supportive of labour's demands, its greatest concern is fostering economic growth and job creation. To that end it wants to dampen labour militancy to encourage foreign investment.

Confined labour militancy combined with the country's relatively high wages for a developing country - South African workers earn comparable salaries to workers in successful Asian economies such as South Korea and Taiwan, almost double the pay rate in Brazil and nearly four times that in India - serve as a continued deterrent to prospective investors.

The ANC has also clashed with Cosatu on the issue of industrial restructuring, and union members reacted

Indonesia accused of rights abuses

A human rights group yesterday accused Indonesia of human rights abuses including torture and the arbitrary use of power, in a wide-ranging report.

Singapore has some of the world's toughest anti-smoking laws. The sale of chewing gum is prohibited in order to combat any unsightly mess in public places.

"All these cases involve major violations of internationally recognised human rights," the report by Human Rights Watch/Asia said.

"But more to the point, these cases illustrate the pervasive

nature of the harassment that ordinary Indonesians suffer on a daily basis. Torture is used routinely to punish and intimidate as well as obtain information."

If there is a constant in Indonesian politics today, it is the arbitrariness inherent in periods of tolerance or crack-down.

The detailed report comes two months before Indonesia hosts an informal summit of the 17-member Asia Pacific Economic Co-operation (Apec) group. It called for a public statement explicitly outlawing torture at all times, while welcoming

Jakarta's move to invite UN officials to visit East Timor and reforms on worker rights.

Africa: Part of the movement's difficulties stem from the very closeness of its ties to the new government. According to a report commissioned by the National Labour and Economic Development Institute, 80 top union officials have left the movement in the past year, most of them to join the administration.

So much of the leadership is unproven and lacks the authority to control more radical shopfloor leaders.

Several of the recent strikes continued well after union negotiators had proved unable to rein in their activist membership.

In implicit acknowledgement of this, the main outcome of the conference was a decision to concentrate on what Mr John Gammie, Cosatu president, calls a "back to basics" policy, focusing on new recruitment, consolidating local affiliates and addressing work-related grievances.

But on the all-important political issue, the congress overwhelmingly voted down a proposal to end its partnership with the ANC and form a left-of-centre Workers party, instead electing "to strengthen the tripartite

alliance". However, the federation was careful to link these resolutions to a strong appeal for the institutionalisation of collective bargaining at a national level via the soon-to-be-established National Economic Development and Labour Council.

This is a tripartite body that will contain representatives from business, government and labour.

So far, therefore, Cosatu seems to be indicating its support for consolidating and expanding the "golden triangle" of business, government and labour that has been nurtured over the past two years by outgoing finance minister Mr Derek Keys.

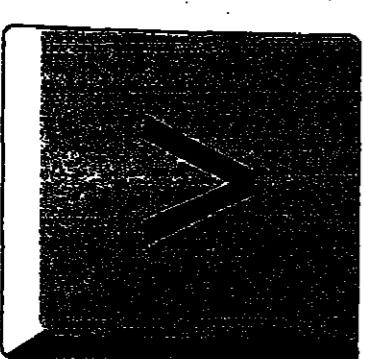
The thread that goes through the congress is that workers must be involved in all strategic decision-making, on the shop floor, in management and in government," said Mr Sam Sime. Cosatu general secretary who was re-elected unopposed.

But, the organisation warned, the tripartite alliance was "not permanent and shall from time to time be reviewed as conditions dictate" possible.

But the new approach is not necessarily permanent, writes Mark Suzman from the Cosatu congress

Its difficulties stem from the very closeness of its ties with the ANC

Mr Enoch Godongwana, secretary general of the National Union of Motorworkers of South Africa argues that in Africa political leaders have a "history of betrayal" towards organised labour after taking power, and Cosatu is determined that the same thing should not happen in South

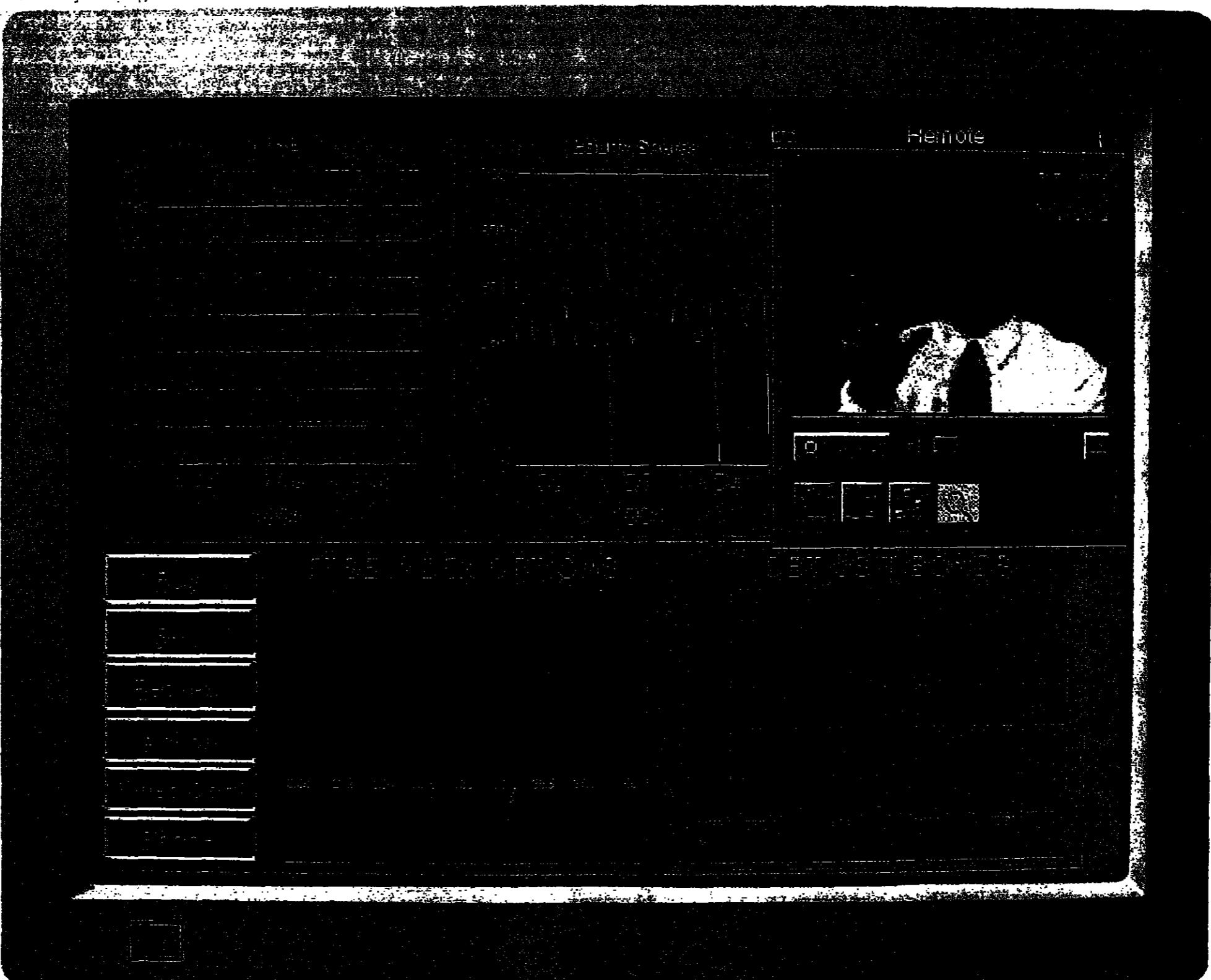


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NEWS: UK

Animal code fails to lift ban

By Deborah Hargreaves

Mr William Waldegrave, agriculture minister, suggested tough new measures yesterday to improve the treatment of live animals on long journeys in the hope of defusing the row between ferry companies and farmers over the lucrative export trade.

But ferry companies appeared unmoved by the new code of practice and said they would maintain a ban on transporting live animals to the continent.

The Royal Society for the Prevention of Cruelty to Animals criticised the new code as it is applicable only in the UK. The animal welfare organisation also questioned the ability of the UK authorities to enforce the code and expressed disappointment that it did not contain a maximum journey time of 8 hours for animals bound for slaughter.

Stena Sealink said its ban on carrying live animals would stay in place until a code was drawn up acceptable to the RSPCA. Peninsular and Oriental, which is responsible for carrying the bulk of live animal exports, said it was still committed to banning the traffic from October 1.

Farmers hope the ferry companies will rethink their objections to the new code when it is discussed in a consultation period over the next few weeks.

Mr Waldegrave said: "This is an important initiative. In the absence of agreed and enforceable EU measures, I shall be amending the law to give teeth to the enforcement of best practice already required by our national controls."

The code would introduce a new criminal offence for hauliers falsifying journey plans. The measures will compel hauliers to fill in a standard journey plan for all trips over 15 hours. Plans for departure, arrival times and staging posts will have to be approved by a government vet.

Farmers groups have warned that they stand to lose up to £200m in the export trade of live animals if the ferry companies' bans are maintained.

Chancellor 'given estimate' of index ahead of Friday's interest rate rise to 5.75%

Inflation rise triggers share fall

By Peter Norman and Gillian Tett

A slight rise up in UK retail price inflation and a bigger than expected drop in unemployment last month unleashed fears of further base rate rises and unsettled financial markets yesterday.

The Central Statistical Office reported that the retail prices index jumped 0.5 per cent between July and August and was 2.4 per cent higher than in August last year. Underlying inflation, defined by the government as the RPI, excluding mortgage interest payments, rose 2.3 per cent in the 12 months to August.

Both annual rates of inflation were 0.1 percentage point higher than in July and above the average expectations of

City of London analysts, who had earlier forecast a slight drop.

The news triggered a sharp decline in share and bond prices. The FTSE-100 index lost 41.6 points to close at 3,078.8 and the 10 year benchmark government gilt edged stock fell 1.4 points. Sterling wobbled, losing a pittance against the D-Mark on the news, but later closed broadly unchanged with losses against the D-Mark offset by gains against the dollar.

Yesterday's financial market jitters were compounded by news of a sharp 34,200 fall in seasonally adjusted unemployment last month to just under 2.6m, which appeared to provide further evidence of fast growth in the economy.

Lord Lawson, chancellor

from 1988 to 1989, added to base rate anxiety by writing in yesterday's London Evening Standard that "this week's half per cent hike is most unlikely to be the last".

Further unsettling markets was a disclosure from a CSO official that Mr Kenneth Clarke, the chancellor, had been given a preliminary estimate of the RPI data last Wednesday before he decided on Friday to raise bank base rates to 5.75 per cent from 5.25 per cent.

This appeared to take some of the lustre away from the Monday's base rate increase. Some City commentators suggested that the rate rise might have been a reflex to current problems and not, as the chancellor said, a pre-emptive move to nip incipient

inflationary pressures in the bud.

However, speaking on the BBC radio's Today programme yesterday, the chancellor insisted that the latest inflation and jobless figures were "not relevant to last week's decision". Instead, he was looking to possible events 18 months to 2 years ahead.

The CSO said the upwards move in inflation reflected sharp increases in prices for clothing and household goods after heavy discounting in July's summer sales. Looking at the trend "prices have been broadly stable since May", officials added.

However, the jump in inflation last month fuelled fears of further price rises in September. "We are at a turning point in inflation," said Mr Geoffrey Dicks, chief UK economist at Northwest Markets.

Yesterday's retail prices report overshadowed the positive labour market news. Seasonally adjusted unemployment fell in all UK regions and reached its lowest rate since January 1992. The unadjusted "headline" jobless total, which normally rises in August, fell last month by nearly 5,000 to 2,688,267.

Wage inflation stayed subdued, with average earnings growing an annual, underlying 3% per cent in July, unchanged from June.

Mr Michael Portillo, employment secretary, said: "Provided costs and inflation are kept firmly under control, all parts of the UK can look forward to more prosperity and more jobs".

Britain in brief



Jungheinrich unit gears up for US

Boss Group, the UK lift truck producer acquired in May by Jungheinrich of Hamburg, is considering a big investment

Accident investigators will today step up their inquiries into the collapse of a passenger walkway which killed six people and injured seven others boarding a ferry at the Kent port of Ramsgate, on the south coast of England.

The collapse of the walkway occurred as passengers were boarding a Belgian ferry, the *Prins Filips*, just before 1am on Wednesday. The end of one section of the walkway fell onto a vehicle ramp which ran on to the ferry.

The incident occurred less than three weeks after a blaze on a cross-Channel ferry and raised once again the issue of ferry safety. Port Ramsgate, responsible for quayside equipment at the port, and the *Sally Line*, which operates the ferry hit by the earlier blaze in which one person was injured are both part of Sally UK, a Finnish/Swedish shipping group.

Channel 5 consortium

A major new consortium has been put together to bid for the Channel 5 licence led by CanWest Global Communications, the Canadian broadcasting group with interests in New Zealand, Australia and Chile.

The consortium, it is believed, brings together three large UK corporations with no significant interests in broadcasting but which are all members of the FTSE 100.

At the same time Virgin Communications, part of Mr Richard Branson's Virgin Group, has appointed Mr Jeremy Fox to develop Virgin's broadcast interests including a possible bid for Channel 5.

Mr Fox will remain president of Channel 5 Australia, the international arm of Mr Jerry Packer's television interests.

Mirror Group into cable

Mirror Group Newspapers will announce today that it plans to launch a national cable television which will not be available to satellite viewers. The channel will provide 24-hours a day entertainment

with British-made programmes. It is the first significant move into television by the popular newspaper group since the death of the former owner Mr Robert Maxwell.

Local activists still willing to tramp the streets in support of the most unpopular government in living memory want some good news to sell. They are fed up telling a disbelieving and disgruntled electorate to bide their time.

Those with a preference for bribery over hair-shirt economics will find also plenty of allies around the cabinet table. When the time comes Mr Major may be among them.

Mr Clarke, of course, hopes the choice will not be necessary: that public borrowing will come down fast enough to remove the contradiction between fiscal prudence and tax cuts.

There is a good chance it will. If not? Well Mr Major could always promote Mr Clarke to the foreign office when Mr Douglas Hurd stands down in a year or so.

Private nuclear plant 'possible'

It may be possible to build a further nuclear power station in the UK entirely with private sector finance, according to a report by N.M. Rothschild, the City merchant bank.

The report, commissioned by Nuclear Electric, the state-owned utility, will be submitted to the government's nuclear review which closes at the end of this month. In its own submission to the review earlier this summer, NE said that a new nuclear power station could not be built without a measure of financial backing.

Surge in Gaelic interest

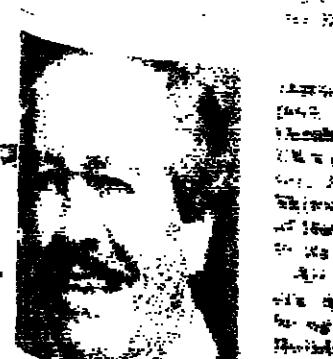
Bord na Gaeilge, the Dublin body promoting the Irish language, has set up a freephone information service after reporting record numbers are studying Irish.

When an airline has a young fleet, experienced pilots, attentive cabin crew, and the pickiest ground technicians in the world, it is free to concentrate on what is really important:



Lufthansa

EBRD's IJum



Bamboo takes

MANAGEMENT: MARKETING AND ADVERTISING

Hitting target audience

Direct marketing's ever-closer targeting of individuals is one of the reasons why junk mail is less of a problem in the eyes of UK consumers than it need to be: what might be junk to one person could be welcome correspondence to another.

The industry's improving reputation is also down to the fact that it appears to be sticking, by and large, to a system of self-regulation, says the Advertising Standards Authority, the watchdog which monitors the sector. The rules, which came into force in 1982, require companies to make sure their information is accurate and up-to-date and consumers know why it is being collected.

Says the ASA: "If a company intends to pass on information to anyone else or use it for a significantly different purpose, consumers should be given an opportunity to opt out. If a company decides to use information it already has about someone it must gain permission first. Consumers should also be able to recognise the associations between companies within the same group."

Companies regularly have to comb their records for consumers who have stated, through the Mailing Preference Service, that they do not want to receive mailings. The rules, which build on the requirements of the Data Protection Act, also apply to press advertisements featuring response coupons.

A recent ASA survey found that, out of a sample of 50 press advertisers, five intended to make their lists available to third parties and one failed to offer an opt-out to consumers. Three advertisers were passing on information to other companies within their group but were not making this sufficiently clear to consumers.

Out of a sample of 50 direct mailers, seven were collecting information to rent out, but the opt-outs available to consumers were found to be reasonable. Rules on the Mailing Preference Service were being observed by both groups, found the ASA.

Diane Summers

Some FT readers will have recently received a missive from Lloyds Bank inviting them not to make a move "until you check with us" about the company's buildings insurance. They probably never gave a thought to how closely targeted they were: they were not hot prospects, or even hot, but prospects. They were hot, hot, hot prospects.

Targeting, the elimination of the hated "junk" from "junk mail", is the holy grail of direct marketing. The better it is done, the less the postage costs, the fewer consumer noses are put out of joint and the higher the response rates are. Now marketers are combining data from a wider variety of sources – including the gold mines of information that usually lie unexploited in their own accounting and other records – to get closer to that holy grail. Lloyds Bank Insurance Direct's building insurance campaign is an example.

To isolate its best prospects Lloyds first compared the prices of its panel of insurers with the competition – postcode district by postcode district. If one of its panel was 30 per cent cheaper than the average competitor price in that postcode, the postcode was identified as "hot". The rest were dropped.

Next, Lloyds trawled its own customer records to identify which of these "hot" postcodes had recorded higher than average conversion rates from inquiry to purchase and lower claims rates. That produced a refined "hot, hot" list.

Then, to maximise the efficiency of leaflet door-drops, it used recent census data to identify those postcodes where property values were higher than average, and where there were particularly high concentrations of home ownership. The resulting "hot, hot, hot" target areas look like a few tiny isolated dots in a postcode map of the country. But they are a sizeable market.

Further, by using data from a lifestyle survey company, NDL, which generates detailed information, including brand preferences and house moving dates from millions of named individuals each year, Lloyds has been writing to "hot, hot, hot" individuals who moved house 12 or 24 months ago. They are particularly ripe because their insurance is likely to be due

for renewal. Philip Loney, Lloyds Bank Insurance Direct general manager, says: "We want to progressively target our marketing expenditure where we get the maximum benefit. This is beautifully simple. We have identified the people who we can offer the best deal to, and now we are talking to them – and the results are markedly better."

Technical developments such as this are doing more than generating better response rates. According to Chris Lovell, managing director of Lovell Vass Boddy, the marketing consultancy that helped Lloyds in this project, future media planning could be shaped by this type of "micromarketing".

Posters can be sited more accurately on key local roadside sites, for example. Bus-side ads can be placed on routes travelling through the postcodes in question. "Too often," says Lovell, "advertising effectiveness is a matter of post-campaign evaluation rather than pre-campaign planning."

Others are going further, trying to move their direct marketing beyond its traditional sales promotion by mail role to become relationship-building exercises.

Next month, for example, the car park at

Stableton Hall, near Birmingham, will fill with Jaguars, Mercedes and other luxury cars. After refreshments, their owners will be chauffeur-driven to the

Show, a privilege not

granted to big exhibitors. Before going home, they will be able to play at chauffeur themselves – driving BMW's new Seven Series car.

Over the next few years BMW will keep in touch with these carefully selected preferred customers, sending them glossy magazines, stories about BMW, and the occasional chance of a freebie such as the Motor Show. By the time they come to replace their old car, BMW hopes it will have persuaded them to buy its new car.

The next step is to combine both approaches, using data from a variety of sources to target individuals for long-term, direct, relationship-building programmes – as Ford is now attempting. In July it sent out questionnaires to 1.6 million individuals who it knew from lifestyle surveys currently drive rival brands.

The Ford Driving Survey asked them details such as age, replacement intentions, most important considerations in car purchase, marital status, occupation, number of children and income.

Existing customer records were then examined, using sophisticated modelling techniques to identify the key characteristics of who buys which Ford models, and why. This information was then matched to the 200,000 Driving Survey replies, so that the people most likely to choose each Ford model could be selected for the right sort of soft-mail mailing.

Says Anthony Marsella, strategic analysis



Back to the corner shop: the ultimate aim of direct marketing is to give customers what they want

manager at direct marketing specialist Wunderman Cato Johnson, which runs Ford's direct marketing operation: "With a car buying cycle you need to keep in touch with a potential customer over three years or more. When it gets to the point where they are going to buy, we will communicate a selling message to them."

Marsella estimates that Ford, by fine-tuning its technique, has doubled its direct marketing efficiency over the past five years. But such technical developments are also having a more profound effect: they are beginning to change the way some marketers think about marketing.

Says Grant Harrison, loyalty controller at Tesco, which is currently testing a Club Card with enormous data-gathering potential: "Marketing is moving very significantly away from trying to change or twist consumers' behaviour to understanding them and giving them what they want."

The ultimate aim, says Mark Patron, managing director of CMT, one of the main lifestyle survey companies, is to use technology to mimic the days of the old corner shop. "The owner would say, 'Hello Mrs Brown, how's Doris? I know she likes orange sherbet. Now we've got some lemon flavour. Give her this, and see if she likes it'."

Most marketers are still a long way away from that, but as they get closer Mrs Brown may find herself investing as much care and attention in choosing which organisations deserve her trust and information – her "relationship" – as she does in choosing which brands deserve her hard-earned cash.

Simply take one celebrity...

Neil Buckley examines Sainsbury's recipe for a successful TV campaign

The formula is simple, yet seductive. A celebrity voice you recognise, but cannot always place, describes a simple recipe, over pictures of beautifully chopped ingredients sizzling in a pan. Once taste buds and curiosity have been tantalised, the camera pulls back to reveal the celebrity.

Former UK chanteuse Denis Healey's recipe for scrambled eggs and smoked salmon, and opera singer Dame Kiri Te Kanawa's farfalle pasta with Parmesan have all featured in what J Sainsbury, the UK's biggest food retailer, says is its most successful series of advertisements.

Some 50m cards detailing the recipes have been picked up by customers in Sainsbury's stores. Moreover, the ads have often created markets for new products.

In May 1992, Sainsbury sold

30,000 cartons of crème fraîche; the following month, after ads showed actress Catherine Zeta-Jones using the product to make fresh fruit brûlée, it sold 1m cartons.

The ads have also increased sales of more familiar products. The latest – former tennis star Sue Barker's turkey and apricot bake, launched last week – resulted in sales of 74 tonnes of turkey strips, 22 times the normal weekly sale.

Last year, Sainsbury bought all available supplies of Italian pesto sauce to meet demand following actress Zob Wanamaker's recipe for tagliatelle with bacon and pesto.

Anthony Rees, Sainsbury's marketing director, says increased product sales were originally a by-product of the ad, launched in May 1991 as a "strategic" campaign to enhance Sainsbury's name and reputation.

Trial campaigns explicitly emphasising Sainsbury's perceived strengths of quality and reliability, heritage and tradition, had produced negative reactions among viewers.

When David Abbott, chairman of Sainsbury's ad agency Abbott Mead Vickers, thought up the recipe theme and persuaded a friend, television presenter Selina Scott, to front the first one, Sainsbury liked the ad but did not think it met the brief. Customer research proved otherwise.

"We discovered the way to convince people was not to tell them anything," says Rees. "People could pull out of the ad what they wanted."

Even more significantly, the ads fulfilled a "strategic" and "functional" role, enhancing Sainsbury's name while persuading shoppers to buy products by the trolleyload.

Rees says they have more than justified the estimated £30m spent on

the 17-ed series.

Sainsbury has moved away from advertising in women's magazines for new product launches, tying these instead to an appropriate TV recipe ad. That is one reason why recipes are not, whatever viewers may think, celebrities' own. They are devised by Sainsbury's recipe department, with help from cookery writer Della Smith.

Dishes must be "aspirational" (mozzarella pasta penne is fine; spaghetti bolognese is not); "achievable", even for novice cooks; and "affordable" – less than £2.50 per person.

They must look appetising at every stage of preparation. Plans for a tiramisu recipe evolved into mousse and lime torte because Tiramisu looked a soggy mess in the early stages.

That attention to detail and the finely judged camerawork are reasons for the ads' success, says Winston Fletcher, chairman of the Advertising Association. "Recipe ads are a bit of a cliché," he says. "What Sainsbury has done, through the style, the esoteric ingredients, the tone of voice, is to update the formula."

The food, says Rees, is always the real star of the commercial. The celebrity adds intrigue and promotes trust among viewers.

Rees adds there is little sign so far, of customers growing bored and several more ads are planned.

PEOPLE

EBRD's Ljungb leaves for Morgan Stanley

Sweden's Anders Ljungb, 52, who has been vice-president of finance since the European Bank for Reconstruction and Development opened for business, is returning to the private sector as a senior adviser to Morgan Stanley.

Ljungb (right) is the second senior EBRD official to leave within the past eight months and his departure will lead to a further reshuffle of the EBRD's relatively new top management team which is still settling down after the abrupt exit of Jacques Attali, the EBRD's first president in July 1993. Earlier this year, Mario Sarcinelli, 59, number three in the EBRD, returned to Italy to take up the chairmanship of Banca Nazionale del Lavoro.

Sarcinelli was not replaced.

Meanwhile, a report in Italy's *Il Sole* newspaper yesterday suggested that Antonio Costa, who used to work in the European Commission and is currently employed by Ferrero, had been lined up to fill Le Blanc's job. Although appointments to the EBRD are supposed to be made on merit there has been a feeling that Sarcinelli's exit means an Italian is likely to be a front runner for the next big job which

comes up at the EBRD. Ljungb's combination of commercial banking skills and knowledge of multinational development institutions will consolidate Morgan Stanley's presence in the Scandinavian market and help expand its international business with financial and emerging market institutions. In addition to his

former tennis star Sue Barker's turkey and apricot bake, launched last week – resulted in sales of 74 tonnes of turkey strips, 22 times the normal weekly sale.

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COMPANY NOTICES



Following the DIVIDEND DECLARATION by Ford Motor Company (U.S.) on 14 July 1994 NOTICE is now given that the following DISTRIBUTION will become payable on or after 15 September 1994.

Gross Distribution per unit
Less 15% USA Withholding Tax

1-12500 Cents

0-16875 Cents

0-05625 Cents

20-0051492 Cents

Converted at \$1.656

Claims should be lodged with the DEPOSITORY: National Westminster Bank PLC, Basement, Juno Court, 24 Prescot Street, London E1 8BB on special forms obtainable from that office.

United Kingdom Banks and Members of the Stock Exchange should mark payment of the dividend in the appropriate square on the reverse of the certificate.

All other claimants must complete the special form and present this at the above address together with the certificate(s) for marking by the National Westminster Bank PLC. Postal applications cannot be accepted.

Dated 15 September 1994

CONTRACTS & TENDERS

COMPANHIA PARANAENSE DE ENERGIA X COPEL

SALTO CAXIAS HYDROELECTRIC PROJECT

IGUACU RIVER PENSTOCKS

CALL FOR BIDS

COMPANHIA PARANAENSE DE ENERGIA – COPEL, informs that an international bidding is open for the supply, erection and commissioning of four (4) 11.0 m diameter Penstocks for the Salto Caxias Power Plant, located at Capitão Leônidas Marques and Nova Prata do Iguaçu county border, in the State of Paraná – Brazil.

The total weight of the supply is approximately 3,400 metric tons of steel. This lowest price type international bidding is open solely to individual companies or joint ventures.

The Bid Documents will be available from September 9, 1994, against payment in Brazilian currency equivalent to US\$120,000 (one hundred fifty American Dollars), at the following address:

Superintendência de Obras do Garapó
Rua Voluntários da Pátria, 233 – 5º andar – sala 504
00220-000 – Centro – PR
Telephone (55-11) 322-1212 – Ramal 541
Telex (55-11) 331-3265

Escritório COPEL / São Paulo
Alameda Santos, 1.800 – 14º andar – conj. 148
01418-000 – São Paulo – SP
Telephone (55-11) 288-1431

At the time of Bid Documents purchase, all companies shall present a letter containing their complete mailing address.

The receipt of Pre-qualification and Bid Documents is scheduled for November 9, 1994, at 3:00 PM, at COPEL's office meeting room, in Curitiba, 233 Vulturópolis da Pátria Street, 5th floor.

The Bidding will be rated by Law # 8.853, dated June 21, 1993; with alterations introduced by Law # 8.853, dated June 21, 1993 and by other conditions stated herein and in the Contract Documents.

GINO AZZOLINI NETO
Ditutor Administrativo
no Exercício da Presidência

TECHNOLOGY

Bronwen Maddox reports on the difficulties with demographic data

A question of numbers

If anyone at the Cairo conference on population and development needed to be reminded that the world's population is growing, a "clock" in the centre of the exhibition hall kept ticking, registering more than one birth every second.

Projections by the United Nations - that the total will nearly double from 5.7bn to 10bn by the middle of the next century - were the only part of the conference text which was not debated, as 180 countries wrestled to agree on family planning policy. Yet how reliable are the projections?

It is not just UN initiatives which depend on the figures' accuracy. The International Development Association, an arm of the World Bank, employs economic criteria such as per capita income when deciding whether to grant a country concessional loans.

Joseph Chamie, director of the UN's population division, adds that many businesses are affected by demographic trends. "If I were a car manufacturer I'd be busy now designing cars so that older people could get into them," he says, referring to the ageing populations of industrialised countries.

But demographers face formidable obstacles in gathering accurate data on population size. Governments sometimes distort figures to influence elections, they say.

Some countries in the Middle East have not always counted births and deaths among their immigrant worker populations. In some societies, "people don't know how old they are", says Tom Merrick, senior population adviser for the World Bank, which runs separate models from those of the UN. In some regions, age distribution data can be distorted because girls are categorised according to whether or not they have reached puberty.

However, both Merrick and Chamie argue that the quality of the raw data on current population size has greatly improved in recent years. According to Merrick, the estimate of 5.7bn is accurate "to

within tens of millions". Past census data from some African countries, in particular Nigeria, have been unreliable, he says, although Nigeria's 1991 census, which yielded a lower total than expected, is now regarded by demographers as sound.

Countries with large populations such as China and India have "pretty good" censuses, says Merrick.

Because the data are improving, demographers have found the predictive power of demographic models to be good so far. In 1950 the UN estimated that the world's population would be 6.3bn in 2000; its latest figures suggest around 6bn. But all acknowledge the difficulties in predicting the future. The models are sensitive to assumptions about whether family sizes will continue to fall as they have been doing in most countries for the last 15 years.

The UN projections for 2050 range from 7.8bn to 12.5bn on only tiny variations in those assumptions. However, delegates at the conference, which ended this week, advanced many competing theories about why parents choose to have smaller families. Twenty years ago, the slogan "development is the best contraception" was the favourite theory, but at Cairo demographers emphasised ease of access to contraception or better education for women.

Moreover, the models cannot take account of future development of new contraceptive techniques. According to Chamie, "the Pill made a tremendous difference on fertility, as did the intra-uterine device and injectable contraceptives. They separate the act of sex from the decision to use a contraceptive, unlike condoms for example".

Demographers' models have spelled out to governments that they have reason to worry about population growth, and to move fast on improving family planning services.

The best tribute to the demographers' efforts will be if governments act so quickly that predictions of the world's population in the next century prove too high.

The Swiss are not known for wild leaps into the frontiers of technology, so it came as a surprise last year when the federal government and 50 Swiss companies put up SFr14m (26.4m) to finance a feasibility study for an underground high-speed magnetic levitation (maglev) train system.

Called Swissmetro, the project, initially proposed in the 1970s by a Lausanne engineer, proposes the construction of 315km of dual tunnels from Geneva to St Gallen and from Basel to Bellinzona.

The atmospheric pressure in the 5m-diameter tunnels would be substantially lowered so that air resistance to the trains' movement would be reduced. The trains' 200m-long vehicles would then have to be pressurised - they are like "aeroplanes without wings and tails" according to one engineer - to support human life.

Theoretically, the maglev trains, driven by linear motors, could reach speeds of 500kmh, although the planners foresee a constant speed of about 380kmh. At that speed, the trip from Geneva to Zurich could be reduced to 57 minutes, compared with the current three-hour train journey.

This sounds appealing, not least because the entire infrastructure would be "several tens of metres" underground, minimising environmental impacts. Swissmetro backers knew there would be no chance of winning approval for additional surface infrastructure on Switzerland's densely populated northern plateau.

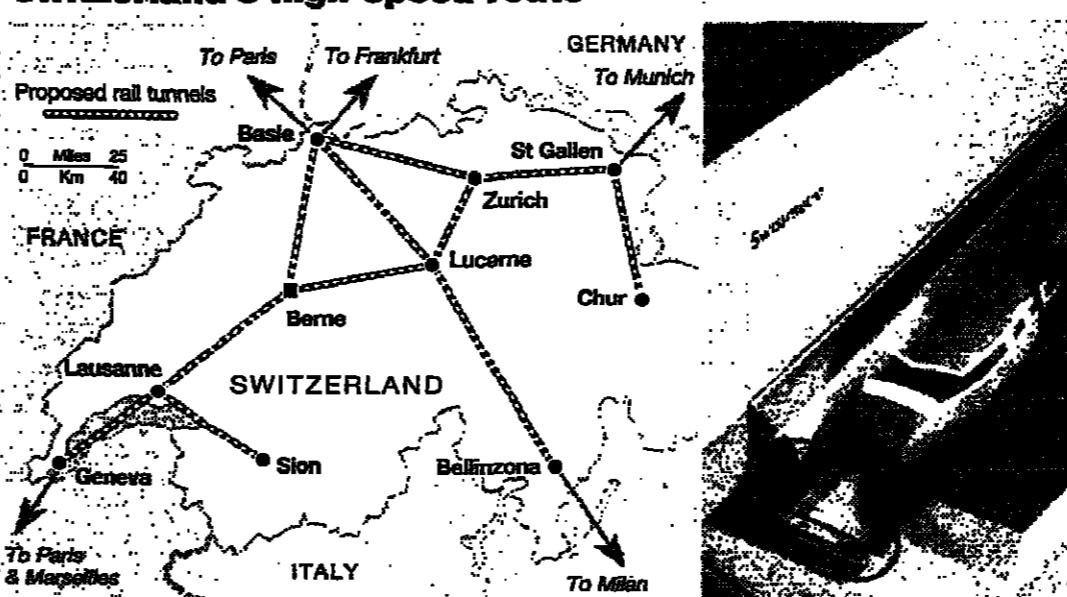
By having the trains run within tunnels in a partial vacuum, Swissmetro would substantially avoid the problems of air resistance that beset all very high-speed transport. In Switzerland, these problems would be magnified because of the need to have frequent tunnels due to the mountainous terrain.

The project plan calls for reducing air pressure in the tunnels to between 1 per cent and 10 per cent of normal atmospheric pressure, the equivalent of the atmosphere at between 20,000m and 40,000m above the earth. The consequent reduction in resistance is also expected to bring significant energy savings.

The plan proposes twin tunnels, not only to eliminate the risk of head-on collisions, but also to avoid the air pressure effects when trains pass each other in a tunnel. Maglev trains hover only 20mm above the track, so even minor jolting could cause problems.

Maglev technology is fairly well established, with Germany and Japan the most active developers. In March, the German government approved construction of the world's first commercial maglev

Switzerland's high-speed route



Magnetic attraction

Swiss plans for an underground rail system will take engineers into unexplored territory, writes Ian Rodger

train to run from Berlin to Hamburg in less than one hour. The project will cost an estimated DM8.9bn (23.67m).

In Japan, a Japan Railways experimental maglev train achieved a speed of 423kmh on a test track in February, although plans for a prototype line near Tokyo have been delayed by difficulties in obtaining

How much vibration will there be? • Air-tightness of a very large tunnel structure. What materials need to be used to ensure that a partial vacuum can be maintained? Swiss scientists say it could be achieved with a steel tube, but at a very high price. They are working on solutions using concrete with various chemical coatings.

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• What are the thermal effects caused by the activity within the tunnel?

Yves Trottet, co-ordinator of the project at the Federal Institute of Technology in Lausanne, says there are no answers to these questions at the moment. No one has ever attempted a project of this scale with these characteristics.

All these elements also have implications for operational safety, including, for example, how to deal

with a loss of pressurisation in the train and how to evacuate a train in an emergency. The present thinking is that a train must be able to advance to the next station under its own power if necessary.

As part of the feasibility process, the scientists in Lausanne and a sister institute in Zurich, together with the relevant Swiss industrial companies, will be studying these issues as well as those related to maglev over the next three years.

Trottet says computer simulations can provide some answers, but physical testing will also be necessary. Later this year, the Lausanne institute intends to build a scale model tunnel for tests. It will probably be 300m in length with a 25cm diameter.

The economics of the Swissmetro project are contentious. The preliminary study published last year estimated that the Geneva-St Gallen line would cost SFr13.1bn and take eight years to build. Feasibility claims were based in part on assumptions of large numbers of people abandoning conventional trains and their cars in favour of Swissmetro.

Treating pills like plastic

German chemicals group BASF is using its plastics manufacturing technologies to improve the way its pharmaceuticals subsidiary makes medicines. The company says the change saves time, materials and floor space to the tune of more than \$30m (21.29m) a year, the equivalent to having developed a successful new drug.

It should also improve the effectiveness of the drugs, says BASF, by better controlling the way the active ingredients leave the tablet and enter the bloodstream.

Traditionally, pills are made in several stages, the active ingredients being made successively into granules, pellets and shaped tablets. BASF replaces that sequence with a single process in which the active ingredients are melted and extruded as a pliable strand, passed through rollers and chopped into tablets. The problem is that drugs are usually crystalline powders, lacking the elasticity of plastics.

BASF's answer was to find a polymer that dissolves the powder when melted. As the polymer hardens the powder remains in what BASF calls a "solid solution" and can be manipulated like a plastic.

By reducing three processes to one, BASF's new pill-making method cuts the floor space required for manufacturing by three quarters. And by dissolving the powder into the pill material, the company reduces the need to deal with the potentially polluting solvents that are used in the traditional three-stage process.

Finally, the medication can be improved because the polymer is designed to release the medicine slowly into the body. This controlled-release mechanism allows for higher doses to be administered and means patients need take tablets less often.

BASF believes that the process will bring it contract manufacturing business. The first extruded medicines should reach the market within two or three years.

Daniel Green

OUR CHAIRMAN

To receive a free booklet outlining Canon's caring, sharing philosophy, contact Canon Europa N.V., P.O. Box 2362, 1180 EG Amstelveen, The Netherlands.

Canon
A PLEASURE TO WORK WITH

WE KNOW THAT TODAY'S BABY TALK WILL TURN INTO TOMORROW'S

BUSINESS NEGOTIATIONS. WHICH IS WHY WE'RE WORKING FOR

FUTURE GENERATIONS. OUR R&D CENTRES

IN EUROPE AND AROUND THE WORLD ARE

GENERATING EXCITING NEW IDEAS - TO

IMPROVE BUSINESS COMMUNICATIONS AND

BRING PEOPLE CLOSER TOGETHER.

OUR MANUFACTURING PLANTS IN COUNT-

LESS COUNTRIES ARE PRODUCING PRODUCTS

THAT ARE EVEN MORE ECOLOGY FRIENDLY.

ALREADY, CANON OFFICE EQUIPMENT IS

SETTING FAR HIGHER STANDARDS.

BUT IT'S STILL JUST THE BEGINNING.

WE WANT OUR FUTURE CHAIRMAN, OR

CHAIRWOMAN, TO BE PART OF A PEACEFUL

AND PROSPEROUS SOCIETY. ALONGSIDE

YOUR OWN CHILDREN.

SO, TOGETHER, LET'S CARE.

ARTS GUIDE

ARTS

Cinema/Stephen Amidon

Hard and soft on drugs

Clear and Present Danger is Hollywood's third attempt to translate Tom Clancy's capacious, flag-waving novels to the screen. It is by far the best. Less than *The Hunt for Red October* and less ludicrous than *Patriot Games*, Phillip Noyce's lively adaptation is pure popular entertainment - unabashedly corny, expertly paced and thoroughly watchable.

This time around, true blue CIA agent Jack Ryan (the ageless Harrison Ford) finds himself combating Colombian drug lords after they kill a close friend of the US president. Needless to say, he soon finds himself in the thick of a tangled plot involving laundered money, covert operations and governmental corruption. After a series of bloodbaths and double crosses, Ryan is put to the most critical test of all: for a true patriot - he is asked by his commander-in-chief to tell a lie.

Director Noyce makes none of the mistakes in pacing and credibility that marred his *Patriot Games*, concocting instead a film whose strong suit is its simplicity. There are no grey areas here - one is either dedicated to stamping out the drug-dealing vermin from south of the border, or one winds up in bed with them. Aided by an exceptionally lucid script (partially written by the legendary John Milius), Noyce is able to create a number of engrossing set pieces, most memorably a shoot-out on a narrow Bogota street that should become a standard of the genre. There are also two nifty sequences in which US government agents and drug cartel gangsters are shown to be using the exact same computer technology as they do combat.

Ford is his usual stolid self, managing to keep his dignity while uttering lines that George Washington might have blushed at. Willem Dafoe, meanwhile, is just the man to play a cynical CIA operative, while Donald Moffat is a spineless president for our time. Even Anne Archer, in the monumentally thankless royal of Ryan's long-suffering surgeon wife, fares better than before.

If the film has a flaw, it is its refusal to question Clancy's boyish admiration for the capabilities of the American military. As much as one wishes that we really did live in a world where the US army could conduct operations against drug-pushing bad guys that did not result in spectacular air crashes, civilian atrocities and friendly fire casualties, it is hard to square Clancy's world-view with that offered on the mighty news.

While Noyce's film relies on an unwavering view of narcotics as the

CLEAR AND PRESENT DANGER (12)
Phillip Noyce

DAZED AND CONFUSED (18)
Richard Linklater

SMOKING/NO-SMOKING (PG)
Alain Resnais

PEEPING TOM (18)
Michael Powell

devil's own candy for its plot dynamics, Richard Linklater peddles a far softer line in his delightful *Dazed and Confused*. Set on the last day of high school in a suburban Texas town in 1976, Linklater's second feature virtually floats on a cloud of marijuana smoke. Nearly everyone except the local cop and the fascist football coach can be seen taking on reefer or bong at some point.

As with his memorable debut *Slacker*, Linklater largely foregoes plot, focusing on the development of character and atmosphere through a steady accretion of humor and spot-detail. The film bears a certain resemblance to *American Graffiti* in this regard, with its parade of souped-up cars, not-so-naive girls, hormonally charged boys and a nostalgic soundtrack. But where George Lucas's film peddled a myth of American youth as a bunch of basically wholesome kids out for

some kicks, Linklater's subsequent generation are thoroughly alienated from their society. His accomplishment is to avoid pathos or gloom in portraying them, opting instead for an anarchic humour that actually makes one pine for those teenage days of plump angst and pubescent insecurity.

*
The combination of French New Wave director and a Scarborough playwright who specialises in very British comedies of manners might seem an odd coupling, though Alain Resnais and Alan Ayckbourn have more in common than just a Christian name. Both have shown a marked tendency to juggle and bend the flow of time in their work. Resnais through mind-boggling films like *Last Year at Marienbad*, Ayckbourn with conundrum plays such as *How the Other Half Lives*. It is hardly surprising, then, that the value of their first collaboration should be primarily as an exercise in style, fascinating in its technical details but sorely lacking as a human drama. *Smoking/No Smoking*, which can either be consumed as two long films or one very long epic, is surely the only movie to appear this year whose press release contains a flow chart to aid viewing.

Based upon Ayckbourn's play cycle *Intimate Exchanges*, the film is set in the small Yorkshire town of Hutton Bussey. Its central characters are a drunken headmaster at the local school, his lonely wife, his best friend, his runaway spouse, a gardener and a housekeeper. The action involves various dalliances and couplings among them, each of which blossoms into a series of permutations when time is reversed and characters are allowed to remake key choices. Hence the binary title, which alludes to the first key decision: the headmistress's wife initially indulges her desire for a cigarette and then decides not to have one, thereby setting in motion two entirely different chains of events.

What is notable about the film is its labyrinthian overall structure, which should keep chess enthusiasts and maze wanderers enthralled for nearly five hours of viewing. Sabine Azema and Pierre Arditi, who between them play all the roles, are at times inspired and always resourceful. But the film suffers from its overall length and its muddle, stage-bound look. And Resnais never really answers the key question that arises after a few hours of viewing - so what? A pall of randomness hangs over the whole enterprise. The resulting malaise makes *Smoking/No Smoking* a bit of a drag.

*
Attending this week's London press showing of the release of Michael Powell's *Peeping Tom* is like revisiting the scene of a lynching carried out by ones ancestors. It has been 34 years since British critics gave the film such a mercilessly hysterical drubbing that its maker, doubtlessly one of the greats of our



Unashamedly corny and thoroughly watchable: Harrison Ford in 'Clear and Present Danger'

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national cinema, never really worked on these shores again. Since then, with the famous intervention of Martin Scorsese, who rescued the print from destruction, this disturbing story about a young murderer who photographs his victims at the moment of their death has gone on to be recognised as the masterpiece it always was.

*
Meanwhile, the 51st Venice Film Festival went out to the sound of frantic stitching and compromises in the jury room, writes Nigel Andrews. The Golden Lion was shared between two films neither of which was expected to win - Michael Malick's *Before the Rain* from Macadamia and Tsai Ming-Liang's *Long Day's Journey into Night* from Taiwan - but which spanned audience taste from the panoramic-political (Malick's study of war's reverberations across a continent) to the intimist-

shot at the top prize were foisted off with Best Director (Italy's Gianni Amelio for *Laamerica*) and Best Screenplay (Spain's Bigas Luna for *The Tid and The Moon*).

The festival itself was as confusing as the prizes. It began badly, rallied for a week of high quality, then collapsed again. We know that Venice has money problems, but money alone does not explain a European film spree that is so inconsistent in its choice of competition movies (high-budget, low-budget; experimental, conventional); and that can summon and accommodate more Hollywood stars than you will ever find in the average Cannes festival - this year Harrison Ford, Jack Nicholson, Michael Douglas, Al Pacino, Arnold Schwarzenegger... while behaving like the poor man of Euro-cinema to all its other guests and participants.

Theatre/Martin Hoyle

A leaky 'Moby Dick'

John Huston did it on film with Gregory Peck, Orson Welles on stage with Joan Plowright, and Manchester achieved a notably blubbery *com de théâtre* with it. Cameron Mackintosh came a cropper when he tried it in a girls' school. Now Gerry Mulgrew has directed Hermann Melville's hammering novella of obsession and destiny, *Moby Dick*, with the Royal Shakespeare Company.

The production was reviewed in Stratford last November. Rumour has it that fine-tuning, tweaking and general tinkering has taken place for its transfer to the National. While it stolidly refuses to generate much theatrical tension.

Mulgrew represents for two of the liveliest offerings I have seen in Scotland: *Mary Queen of Scots Had Her Head Chopped Off* and the wonderful phantasmagoria of Scottish identity real and imagined, *Jock Tamson's Bairns*. As with many of his compatriots, the journey south has tamed him.

As a director, he may be uncertain how to take Rod Wood's adaptation. The writing sets off resonances, echoes and allusions - unwise, since

it fails to stand the comparison with the sort of poetic prosody it sometimes aims at. Chief sufferer is David Calder, who brings a Shakespearean technique to some sun-Shakespearian fustian interspersed with creaky metaphors - "I didn't stop to plug my leak" - that frequently send the dramatic craft dipping into the brashk of bathos. The style varies between the clothed poesy of fine writing and deliberately modernity.

As the crew remarks in true 19th-century fashion, "It gives me the creeps". As with the fountain pen with which our story-teller (whose famous opening, "Call me Ishmael", is moved back) signs on, the effect is less universal than merely distracting. The story may be timeless, but this implies freedom from such specific details, not a constraining emphasis on them.

Writing and direction are at their most ambitious in the choral spoken passages that go on too long, just as the boy Pip (played with passionate relish by Lloyd Notice) has at least one Ophelia-like mad scene too much. Karen Temmerman's design dangles ropes from above around which the cast clusters in sculptural groups. This

encourages the cult of the picturesque, notably in the case of Christopher Colquhoun's African-toned Queequeg, a designer savage given to posing as though it were a latest gay leisure wear. The sacrifice of coherence to imagery is seen during a storm, where two figures are pulling on one rope - in different directions.

The final use of a billowing white sheet to cover the stage is impressive though, in the words of *Porgy and Bess*, it takes a long haul to get there. Calder's Captain Ahab, a few weevils short of a shabby's hector, is powerful enough in a yo-ho-ho sort of way to make one want to see his Long John Silver, a character a great deal more varied and complex than the stumping rante at the centre of this production. Melville's damned existentialism has leaked, unplugged, away on the voyage from the Avon to the Thames. As the Scottish crew member remarks, "So many nice intelligent people doing nice intelligent things. Look what a mess it's got the world into!" Oh come on, chaps: this is the man who wrote *Billy Budd*.

In repertory at the Pit



David Calder and Christopher Hunter in 'Moby Dick'

The Tempest in Birmingham

In Birmingham most colourblind and/or multi-cultural city? No British ballet company makes more of the differing ethnic origins of its dancers than the Birmingham Royal Ballet; and Bill Alexander, artistic director of the Birmingham Rep, is presenting a new production of *The Tempest* in which Prospero, his daughter Miranda, his brother Antonio, and his spirit Ariel are all played by black actors, and in which two magical masque sequences are performed by Indian dancers in Indian style. So far so p.c.: but colourblind casting is also, in this case, poetry-deep.

For Alexander and Jeffery Kissoon, who plays Prospero here, this *Tempest* is a sequel to last year's *Othello*, with which Alexander launched his new regime at the Rep and in which Kissoon played the title role. He is a much younger and more potent Prospero than we usually see; fine. But in all five Shakespearean roles I have seen him play he has employed the same barking delivery, the same avoidance of all legato sequences, the same false stresses, the same blurrings of syllables, the same sudden shouts. I find this casting insufferable.

There is novelty and some

freshness in Rakie Ayola's childlike, piping, blithely, seemingly stupid Ariel, and in Gimmy Holder's quiet but eager Miranda; but neither speaks with any distinction. The best black verse-speaker in the cast, however, is Tony Amatraining as Antonio; he brings a nice cutting to the role. Likewise, there is novelty and freshness in Pali Ray's use of Bharata Natyam style for the spirits' dances, but there is little real pleasure to be had from watching any Indian dancer either on a sandy floor or on taped and partly rock-based music (by Jonathan Goldstein).

All this mars what might otherwise be a first-rate production. In all larger matters, Alexander shows how well he understands this play. The initial tempest - an eerie quiet, marked by the huge slow thudding of a heartbeat and an occasional giant thunderclap and the noise of a colossal tidal wave or two - is thrilling. Ruari Murchison's single set is marvellous, one vast circle of sky at the back and another vast circle of white sand in the centre, the rest being composed of black rocks in which we see some of Prospero's books scripted. Costumes are Victorian; there is a feeling of a 19th-century *Robinson Crusoe* to it all that adds poetry and

excitement. Alexander imposes no specious concepts onto the play, and no cerebral ornamentation; even Ariel's magical appearances are simply achieved. I would say that this was a *Tempest* shaped by a deep and loving knowledge of the text - were it not that the above-mentioned members of the cast too frequently stop me from *hearing* the text.

It is a bore to have to say that the white comic actors make the most successful impression, but it is so. Geoffrey Freshwater as Trinculo and Andy Hockley as Stephano take complete charge of the play on their every appearance. I do not care for the stunted way in which Andy Hockley speaks Caliban's words, (proceeding from his line to Prospero "You taught me language"), but he nonetheless gives Caliban a crude rage that is at once funny and disturbing. This *Tempest* is on the verge of being vivid, refreshing, and spontaneous. But that phrase "You taught me language" reminds me that Alexander knows more about the secrets of Shakespearean language than he is teaching his actors.

Alastair Macaulay
Birmingham Rep until Oct 8.

INTERNATIONAL ARTS GUIDE

ATHENS

Odeon of Herodes Atticus Tonight: Hans Graf conducts Salzburg Mozart Orchestra in Mozart, with piano soloist Danas Kara. Tomorrow: Daphne Evangelatos and Gilles Cachemaille are soloists in a Callas memorial concert. Sept 22, 24: Verdi's Otello (01-322 1455). Megaron Sun, Mon: Carlo Maria Giulini conducts Orchestra of La Scala Milan in works by Debussy, Franck and Ravel (01-728 2333/01-722 5511).

BOLOGNA

Teatro Comunale Zubin Mehta conducts five performances of Jonathan Miller's production of *Coste* (051-529999).

FLORENCE

Teatro Comunale Zubin Mehta conducts five performances of Jonathan Miller's production of *Coste* (051-529999).

cast including Karita Mattila, Delores Ziegler and Deon van der Watt. Il filosofo di campagna, a drama giocoso by 18th-century composer Baldassare Galuppi, will receive four performances at the Piccolo Teatro, starting Sep 28 (035-211158).

GENOA

Teatro Carlo Felice The Odessa Opera gives four guest performances of Tchaikovsky's *The Maid of Orleans*, starting next Thurs (010-588329).

LONDON

THEATRE: The Hostages: the Royal Shakespeare Company has just unveiled its new production of Brendan Behan's great Irish drama, directed by Michael Bogdanov. It continues in repertory with The Tempest, starring Alex McCowen and Simon Russell Beale (Barbican 071-838 8891). The Devil's Disciple: Christopher Morahan directs the National Theatre's new production of Bernard Shaw's 1897 satire on melodrama, in repertory at the Olivier with David Hare's Racing Demons and Chekhov's The Seagull (National 071-928 2252). The Playboy of the Western World: Lynne Parker directs a welcome new staging of J.M.

Synge's celebrated play about Christy Mahon, the lying Irish player, till Oct 15 (Almeida 071-839 4404).

Design for Living: Sean Mathias, one of the UK's leading young directors, takes a fresh look at Noel Coward's manage à trois who reject conventional values (Donmar Warehouse 071-838 1732).

Babes: Jonathan Harvey's play tells the story of Tammy's 14th birthday party, which mum has thrown in order to entertain her daughter's teacher - without realising Uncle Kenny has the same taste (Royal Court 071-730 1745).

The Winooski Boys: another step in the Terence Rattigan revival - this time his 1946 play about the private cost of justice. Peter Barkworth is ideally cast as the stiff upper-lipped father, battling Whitehall to prove the innocence of his son who has been expelled from naval college (Globe 071-494 5065).

Dead Funny: Terry Johnson's brilliant, elegantly acted comedy about marriage among the emotionally retarded middle classes (Vaudeville 071-838 9987).

The Cryptogram: Lindsey Duncan and Eddie Izzard star in David Mamet's tantalising new play about betrayal (Ambassadors 071-838 1171).

She Loves Me: the charming 1963 Master-Bock and Hamnick romantic musical about two penpals who don't know they work in the same perfume. Ruthie Henshall and John Gordon Sinclair head the cast (Savoy 071-838 8888).

OPERADANCE: Coliseum English National Opera has opened the 1994-95 season with a new production of Tosca, conducted by Dvořák's Rusalka and The Devil and Kate, Smetana's The Bartered Bride and Dalibor, and

conducted by Alexander Gibson and staged by Keith Warner, with a cast headed by Rosalind Plowright, David Rendell and Henk Smit (new performances Sat and next Tues, runs till Oct 27). Jonathan Miller's production of *The Mikado* is revived on Sep 21 (071-838 3181).

Covent Garden: The Royal Opera has opened its season with a revival of Andre Serban's production of Turandot, starring Sharon Sweet and Giuseppe Giacomo (next performances tomorrow and Mon).

La Cenerentola is revived on Sep 26, and the first new production of the season are Das Rheingold and Die Walküre on Oct 13 and 14. The Royal Ballet returns on Nov 3 with Anthony Dowell's new production of Sleeping Beauty (new box office number: 071-304 4000).

Sadler's Wells British Youth Opera presents Eugene Onegin tonight and Sat; and Rossini's Thieving Magpie tomorrow. Cumbre Flamenca, a Spanish flamenco group, opens a three-week season on Tues (071-778 8916).

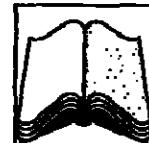
CONCERTS: South Bank Centre Tonight: RPO in Brahms and Prokofiev, with violin soloist Shlomo Mintz. Sun: Giuseppe Sinopoli conducts Philharmonia Orchestra in Strauss and Mahler, with soprano Edita Gruberova. Next Wed: Endelion String Quartet plays Britten, Beethoven and Schubert, with pianist Jean-Yves Thibaudet (071-828 8800).

Barbican Sat: an evening of barbershop. Tues: George Lloyd conducts Bournemouth Symphony Orchestra in three of his own works.

Next Wed: first concert in London Symphony Orchestra's Mahler festival, including world premiere of a new work by James MacMillan (071-838 8891).

Wigmore Hall Mon: Jennifer Lamore song recital. Tues: Nash Ensemble plays new chamber works by Henze. Sep 27: June Anderson (0

A man who could not care more



Tony Benn has been so spectacularly wrong on so many subjects over the years that it is pleasant to record his achievements. For the greatest is that he has written the best, and probably most accurate, British political diaries of our time.

Years of Hope is the sixth and presumably final volume. Sub-titled *Diaries, Papers and Letters 1940-1962*, it helps to explain a great deal of what came later, but was published earlier.

"I am going to try out a political diary," Benn wrote in January 1951, having just been elected to Parliament as the "baby" of the House at the age of 25. "What I want to do is to highlight the most significant events of which I am a witness and set down contemporary accounts and opinions which my memory would probably distort to suit current purposes were I to try to recall them later on."

The Benn of the 1960s was not quite as audacious in his daily jottings as the Benn of the '50s, '60s and '70s. Yet he stuck to his basic principle: write it down as you see it and hear it at the time, however fatuous it may seem afterwards.

A lesser man would have eliminated some of the entries in *Years of Hope*. Here, for example, is Benn's comment on a party at the American embassy in London in April 1959 at which he admits that he and his wife had "a whale of a time": "One wondered how a society led by these sort of people could possibly withstand the thrust and dynamism of the Chinese communists working away so feverishly and seriously on the other side of the world."

Back at the embassy for dinner in December, he recorded: "This was gracious living at its height. I cannot but feel that western civilisation has reached its peak and is now slowly declining before the upsurge of pressure from the more serious societies."

He thought (January 1960) that American culture had "detribalised Britain to some

YEARS OF HOPE:
DIARIES, PAPERS
AND LETTERS
1940-1962
By Tony Benn
Hutchinson, £25, 442 pages

extent and we shall be better off still when we get the full blast from Russia and China".

Benn was not alone in his delusions. The recorded entry for October 21 1960 reads in full: "Rang Andrew Callaghan. She said Jim was very depressed, but had come back from Czechoslovakia convinced that socialism does work."

He wrote of Harold Wilson in the same year: "My contempt for him grew each time I met him and I don't think that he has one-tenth the character of Gaitskell." That was in spite of the fact that Benn's opinion of Gaitskell, character and otherwise, was low, except perhaps when Gaitskell was nice to him.

The paradox was that in those days Benn seemed a rather moderate member of the Labour party. Some of his friends and contemporaries were well to the left of him: for instance, Woodrow Wyatt, Bob Mellish and George Thomas (now Lord Tonyandy). Subsequently the others moved to the right; Benn is one of the few figures in politics to have moved steadily leftwards as he grew older.

There is perhaps a partial explanation in *Years of Hope*. Here, for example, is Benn's comment on a party at the American embassy in London in April 1959 at which he admits that he and his wife had "a whale of a time": "One wondered how a society led by these sort of people could possibly withstand the thrust and dynamism of the Chinese communists working away so feverishly and seriously on the other side of the world."

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father, William Wedgwood Benn, was a Labour minister who was sent to the House of Lords in the days when peers were only hereditary.

The young Tony (or James or Jiggs, as we now know he was called in his youth) objected from the start for it meant that at some stage he would have to take the title and be ineligible for the House of Commons. In this he had something in common with Lord Hailsham, who was also from a long-standing political family and believed that it ought to be possible to renounce a peerage in order to stay in elective politics.

As Benn tells here, he began working with Hailsham and a few other Tories for reform in the early 1950s. Some Tories opposed it because they did not want either Hailsham or Lord Home back in the Commons as rivals. When the reform was finally achieved in 1963, one of the prime beneficiaries apart from Benn was Home, who promptly became prime minister.

Benn and Hailsham had other affinities. There is an uncanny resemblance in mood between these diaries and Hailsham's recent book, *Values, Collapse and Cure*. Both are of postwar hopes not being realised: their restlessness simply came out in different ways. It is striking, too, that several of Benn's early political friends were Tories: Sir Edward Boyle especially, but also Enoch Powell ("as a working-class Tory he has the social barrier to overcome") and Edward Heath ("a most amiable and friendly soul").

Benn is sometimes too kind to tyrants. He had a love affair with the third world, which he never wholly understood. But on the whole he likes rebels. He writes of Violet Bonham Carter: "She has a tremendous vitality and an unparalleled enthusiasm for life. She belongs to the 'couldn't care more' brigade." Just like Benn, though there is another hero to the diaries. That is Ruth Winstone who has edited the lot. She says that *Years of Hope* was the most enjoyable task of all, and she may be right. Ms Winstone deserves a medal.

His brother Mike was killed in action. Politics ran in the family. Both his grandfather and his father were MPs. But there came a problem: the

Malcolm Rutherford

The UK chancellor, Kenneth Clarke, would have had a whiff of the worse than expected UK Retail Prices Index and the faster than expected drop in unemployment by the time he accepted the Bank of England's advice to raise base rates. This was last Friday, 48 hours after his monthly meeting with the governor, Eddie George, at which he had asked for a couple of days to consider.

Nevertheless, these two indicators on their own would not have been decisive. The 0.1 percentage point rise in the underlying RPI could well have been a blip due to the end of the summer sales. Moreover, the fall in unemployment is not yet being accompanied by a rise in the total number of jobs, let alone full-time ones.

The main reasons for the base rate move were listed in a Treasury statement. Some of the elements could have been cited a few months ago, such as the growth of M0 (cash balances) persisting above the monitoring range. Other trends, such as rising output expectations and higher sterling commodity prices, and more vigorous recovery abroad have intensified.

The two most important elements were, however, the upward revisions in the GDP estimates and detailed analysis suggesting rising prices of intermediate products.

Vigilance is required in reading to the GDP estimates. For instance, the headline figure of 3.7 per cent real growth in the year up to the second quarter of 1994 includes North Sea oil, which is both highly volatile and exerts little direct pressure on the UK activity.

The Treasury invented a measure called "non-oil GDP" with which it made great play when it suited its purpose. This is still the most relevant measure today. Non-oil GDP has on the latest estimate risen by 3 per cent, which is hardly breathtaking.

Simply to look at this growth rate and contrast it with a guesstimate of underlying growth of capacity of 2 to 2.5 per cent per annum is a howler. The degree of spare capacity and unemployment are crucial. A 3 per cent growth rate means something very different when the country is emerging from a severe recession from what it does if the economy is running along its trend line or bumping against the limits of capacity.

In fact the best domestic reason for raising UK short-term interest rates was given in a

reader's letter to the FT by Dr J. Popham (September 13). It was simply that the risk in raising rates at this stage of the cycle, when world output is recovering strongly, would be much smaller than the risk in not raising them - which could reinforce the sceptical view that the UK has not kicked its inflationary habits.

I doubt if the Bank of England would quarrel with the view of the former chancellor, Norman Lamont, that short-term UK interest rates are likely to rise to 7 per cent. The governor's speeches, while avoiding crystal gazing, have assumed that UK short-term rates have been abnormally low in the aftermath of recession, and that normal growth would require something higher. If the appropriate real rate of interest is about 4 per cent, then 2% percentage points have to be added for inflation, even on an optimistic estimate, and perhaps 1% per cent as a risk premium.

These considerations apply to other European countries where short-term interest rates have not yet risen. In the main this is because recovery has come later on the Continent. But there are other differences which are revealed by looking at long-term rather than short-term rates.

Since the beginning of the year, average bond yields have risen in the Group of Seven countries by nearly 2 percentage points. The rise in yields on UK indexed gilts would suggest that about 1 percentage point of this increase represents higher real interest rates and the rest a deterioration in inflationary expectations.

The European Monetary Institute has apparently carried out a study of the behaviour of bond rates. It did not explain the worldwide rise, but did back on the next best thing, which was to investigate the differential increases from one country to another.

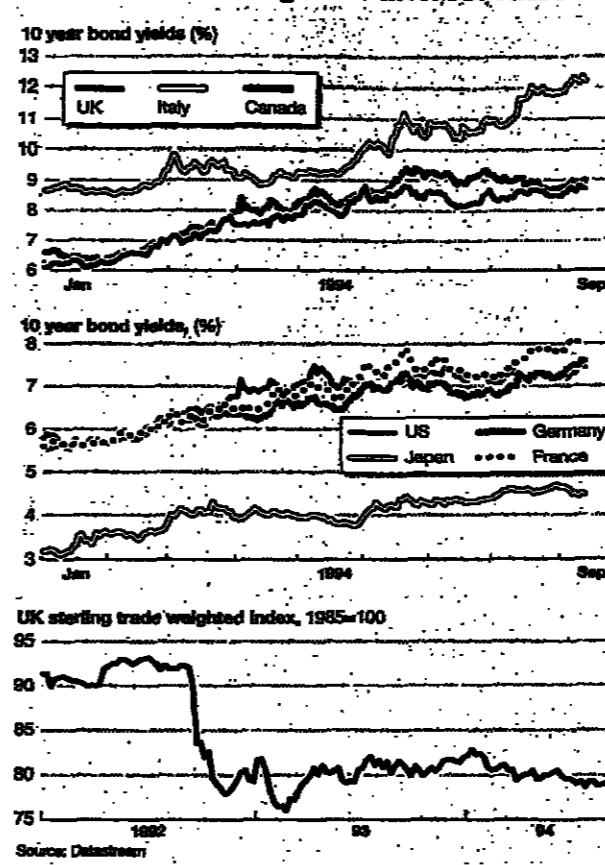
The charts are a rough attempt to replicate it. They show that Japan has both the

ECONOMIC VIEWPOINT

Interest cost of UK opt-out

By Samuel Brittan

General rise in long-term interest rates



lowest level of bond yields and has experienced the smallest increase in them - by a very wide margin. In August, the Japanese yearly inflation rate became for the first time negative at minus 0.2 per cent. The US and Germany cluster close together with bond yields of about 7% per cent, although Germany has a slightly faster rate of nearly 2 percentage points. Only slightly behind comes France.

The UK on the other hand heads the also-rans. Before the base rate rise, it had experienced both a larger increase in bond yields than the countries so far mentioned and had seen them rise to a higher level. Ten-year bonds rose in the UK in 1994 by some 2.7 percentage

points. The yield was standing before the base rate rise at 8.5 per cent - a higher level than in these other countries. The only G7 country it clearly beat was Italy, whose well-known problems have been reflected in bond yields of well over 12 per cent.

It is anyone's guess why the

UK, which has achieved a near-record underlying inflation

than that of the probable members. The present British government looks likely to exercise its opt-out mainly because anything else would split the Tory party from top to bottom. Meanwhile, financial markets are not yet completely convinced (a) that Labour will win the next election, (b) that, if it does, it will have the courage to follow the instincts of its present leadership and join Emu (although my own view is that it would) and (c) that, even if a Labour government did join Emu, this would outweigh its pro-trade union instincts.

In fact Britain stands as good a chance of fulfilling the Maastricht criteria for Emu membership as most of the probable members. The present British government looks likely to exercise its opt-out mainly because anything else would split the Tory party from top to bottom. Meanwhile, financial markets are not yet completely convinced (a) that Labour will win the next election, (b) that, if it does, it will have the courage to follow the instincts of its present leadership and join Emu (although my own view is that it would) and (c) that, even if a Labour government did join Emu, this would outweigh its pro-trade union instincts.

The important point is that opting out of Emu does have an economic price which the UK may already be paying in long-term interest rates higher than those of partner countries, and in the need to reinforce confidence by base rate increases earlier than it otherwise might. This is not an element of policy which either the Treasury or Bank would at present emphasise: which is all the more reason for others to do so.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Coal sale must stress viability

From Mr George R. Guise.

Sir, You are right to argue that the taxpayer should receive the highest possible return on the sale of British Coal, but wrong to claim that this is measured solely by the highest bid ("Privatising British Coal", September 12).

The highest return to the taxpayer would be for the problems of the long-suffering coal industry to be taken from government's door and never to return.

The chance of this happening will be maximised by selecting whichever bid demonstrates the greatest financial

and operational viability and a fair price for future cash flows. For example, a very highly geared bid which crashed a few years down the road, perhaps at election time, would have all the bleeding hearts back at the Department of Trade and Industry's and the Treasury's doors. Ministers would be nostalgic for the relative tranquillity of October 1992.

For the coal industry to move irreversibly into the private sector, the winning bid must also demonstrate a leadership which has the support of the workforce as well as the

marketing and technical skills to maintain sales of a commodity, currently in chronic oversupply, while continuing to produce at an internationally competitive cost.

The government should therefore be seeking a proposal which not only proffers a fair price but, even more importantly, has the least chance of returning the industry to its own doorstep.

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Telephone tariffs compared

From Mr Alan Harper.

Sir, Your report of Mercury One-2-One's new business tariff ("Lord Young left with a face to match his bright red bow tie", September 9) compared the quarterly access charge for our Inside Option (55p/47p) with the quarterly charge for a fixed BT business line (232.66). A more relevant comparison would have been against the combined cost of subscribing to both a BT business line and a cellular phone - typically £107.88 per quarter.

By offering daytime "fixed" calls from an office/workshop location that are cheaper than BT and "mobile" calls that are substantially cheaper than on the conventional cellular networks, Mercury One-2-One has created a very competitively priced and self-contained communications package with great appeal to the self-employed business community.

Our market trials of Inside Option demonstrated that the self-employed entrepreneurs who form the bedrock of the economy are less fixed in their thinking about innovations in telecommunications than many commentators.

Alan Harper,
business strategy director,
Mercury One-2-One,
Elstree Tower,
Elstree Way,
Borehamwood, Herts WD6 1DT

Probably not a gambler

From Mr Chris Adam.

Sir, Re the article "Hand in hand" (Technology, September 6), I was surprised by Prabha Fernandes's interpretation of the probability theory applied to gambling: "the more you play, the better the chances of getting hit". Any seasoned gambler will know that the odds of any random event occurring are not influenced by the history of that event. Either Mr Fernandes is a successful research executive or an unsuccessful gambler.

Chris Adam,
Gloss Research and
Development,
Society Park West,
Uxbridge,
Middlesex UB11 1BT

No question of class here

From Dr G. Wallenwein.

Sir, I very much appreciate Quentin Peal's and Judy Dempsey's articles about Germany such as the one on the German election campaign. "Firmly footed for the final hurdle" (September 10). Unlike many German journalists, they give a clear and unbiased view.

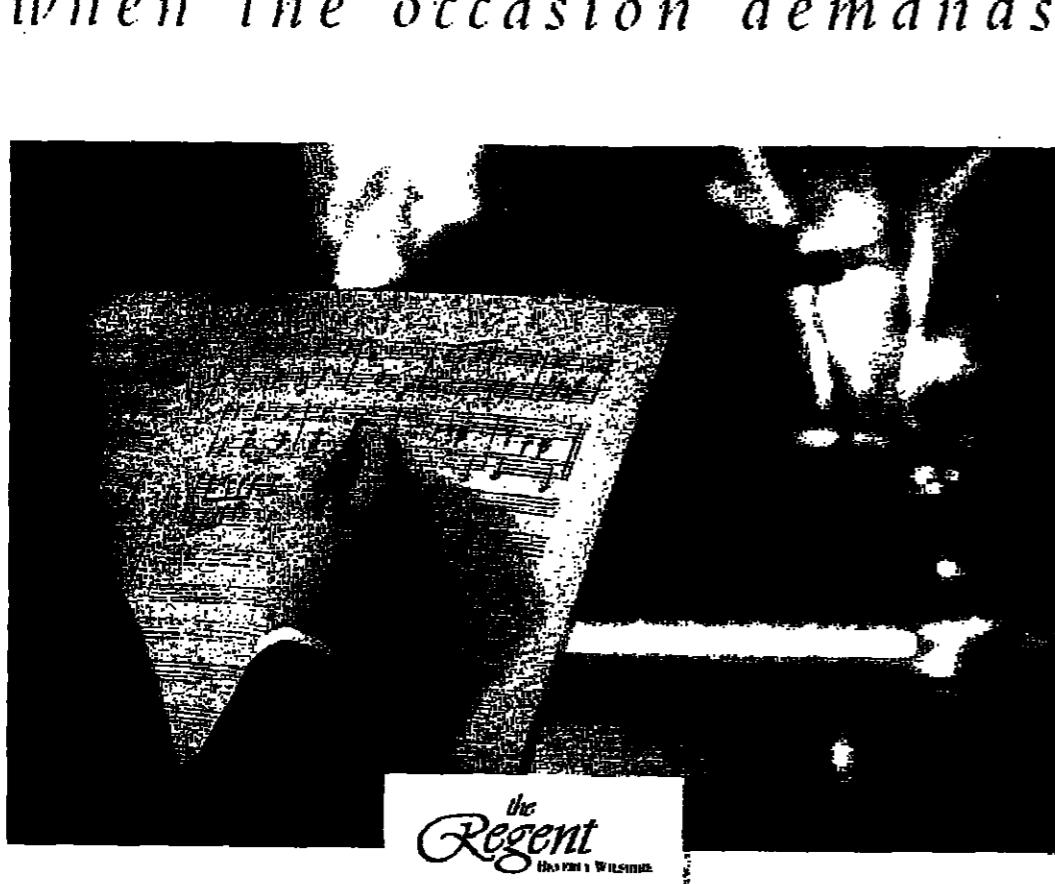
What I dislike, however, is the translation of Bundestag into lower house (and, likewise, Bundesrat into upper house). Since there are neither commoners nor lords in this country, no reference should be made to class. I think the British reader does not need such translation.

Prison policy unchanged

From Mr Derek Lewis.

Sir, I am responding to points made by Mrs Paddy Seligman in her letter published in several newspapers and referred to in your report "Howard accused on jail rule change" (September 13). Neither the home secretary nor the prison service has sanctioned any relaxation of security for IRA prisoners or provision of any special privileges.

When the special unit which held the IRA prisoners at Whitemoor was first opened, in July 1992, it was not general practice to conduct roll-down searches of visitors to prisoners in all such units. Following a review of policies, instructions were issued by prison service headquarters in May of last year which required full roll-down searches for all visitors in all special secure units. Derek Lewis, director-general, HM Prison Service, Cleton House, Page Street, London SW1P 4LN



FINANCIAL TIMES

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Mr Clinton's slow track

President Clinton's troubles are coming in battalions. Now he has had to abandon his request to attach a "fast-track" authority to the passage of the results of the Uruguay Round of multilateral trade negotiations. This setback is not without advantages. But the disadvantages outweigh them, since the US capacity to enter serious new trade negotiations has probably been crippled.

The purpose of a fast-track authority is to ensure that Congress will vote on the results of a negotiation as a whole. In the absence of such an authority, US partners believe negotiations are likely to prove fruitless, since their results are exposed to the threat of downstream amendments.

True, the US has entered trade negotiations without such an authority in the past. But the current resurgence of protectionist sentiment makes that course riskier for its partners and less rewarding to itself than during the early years of the Uruguay Round. In any case, nothing much happened in the Uruguay Round either until a fast-track authority was granted.

The reason Mr Clinton has been forced to drop the request, which had been attached to the Uruguay Round package, says much about why it was important. His administration and, indeed, most Democrats regard the incorporation of labour and environmental standards in further trade negotiations as essential, while Republicans regard their inclusion as anathema. The result of the conflict was a statement not just on fast track,

but on message of the round itself.

Rightly, the administration decided that the round was the first priority. Ratification should now proceed apace, which ought to shame laggards elsewhere, not least the European Union. It is also difficult to weep tears for the lack of an obligation to negotiate on labour and environmental standards. Mr Mickey Kantor, the US trade representative, will still be able to raise these topics in negotiations. But he will, fortunately, be unable to tell his counterparts that they must give the US something in these areas to meet conditions set by Congress.

The prior question, however, is whether there will be any negotiations. The Clinton administration's intention to pursue trade negotiations actively within the Americas and the Asia-Pacific Economic Co-operation forum has been derailed. The president has a commitment with the former grouping in Miami in December, and with the latter grouping in Jakarta in November. What can he now bring them?

It may, in fact, prove impossible for the administration to impart momentum to any trade negotiations for the balance of its term. But what does not go forward may well go backwards. That is still more likely when many of the new Congressmen are likely to incline towards protectionism. It is good news that the US should soon write *finis* to the long effort to negotiate the Uruguay Round. But that is the past. The future of trade policy is now shrouded in doubt.

Its margin for safety in the congressional and state midterms, especially in the Senate, is slim. It commands the Senate by 56 seats to 44, the House by 256 to 176 (with one independent) and the gubernatorial by 29 to 19 (with two independents). As usual, Democrats are defending far more seats than Republicans and anything much worse than the average loss incurred by every new president in maiden midterms since the war - four in the Senate and 26 in the House - could hand the Senate back to the Republicans for the first time since 1986. A real Democratic debacle, unlikely as it may be, could produce a Republican House, last seen in 1954.

It may seem odd that this should be so, given the relative health of the US economy, the dominant issue in Mr Clinton's election two short years ago. But the midterms, with their focus on local issues and personalities, rarely are driven by national themes. The public mood remains very sour on politicians in general and on Democrats in particular.

Mr Clinton may be correct that trying to revive a voter feel-good factor with tax cuts could backfire on the government if the fiscal deficit were to remain high. In truth, however, the public sector borrowing requirement is likely to fall dramatically over the period, thanks to the combined effect of lower inflation and economic recovery.

Indeed, the figure for 1994-95 is likely to be around \$200bn-\$21bn, considerably less than the \$236bn predicted at the time of the last Budget. Keeping to last year's nominal spending targets has proved simpler than many supposed, since very low inflation enables a greater volume of spending at no additional cost.

It is possible that Mr Clinton is simply playing a chancellor's traditional role, by lowering pre-budgetary expectations. Certainly, if ministers really believed that tax cuts were ruled out, they would have every incentive to think of ways to spend the extra cash generated by lower inflation. Mr Clinton should be careful not to encourage quiet pre-election crowd pleasers could be considerably.

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A new Ken

Mr Kenneth Clarke has seen the future and it is wearing a hair-shirt. Not content with Monday's display of monetary austerity, the Chancellor of the Exchequer is telling his party to expect the same evidence with regard to taxes. He is asking the government to gamble that making the voters feel safe is a surer re-election strategy than trying to make them feel good.

On the face of it, Mr Clarke's approach makes good economic and political sense. Sterling's humiliating departure from the European exchange rate mechanism left the public, as well as the financial markets, distrustful of the government's macroeconomic credentials.

A single pre-emptive interest rate increase, like Monday's half-point rise, will not convince them that the Conservatives are once again the party of sound money. Resisting pre-election tax cuts, on the other hand, might look impressively frugal, particularly if the Conservatives continue to lag so far behind in the polls.

Yet Mr Clarke's hair-shirt has a number of holes. The first is practical: Mr Clarke may not convince the rest of his party that austerity makes sense. Resisting tax cuts in this November's budget will not be too difficult, since many in the party had already accepted that an early giveaway was unlikely. In 1985 and 1986, however, the pressure for some pre-election crowd pleasers could be considerable.

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can definitively rule out tax changes - whether increases or cuts - for the coming two or three years. The target of Mr Clarke's sombre warnings would seem to be, not supporters of lower taxes, per se, but those who would wish him to lower them in the run-up to the next election, even if the government's public spending targets had not been met.

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Polish lessons

The debt-reduction accord signed with great fanfare in Warsaw yesterday is a case of virtue rewarded. Nearly five years after pioneering "shock therapy" market reforms, Poland is an economic success story, by post-communist standards, with a growth rate last year of 4 per cent. The debt agreement, which halves the country's \$16bn commercial debt, will complete the nation's economic transformation, by making Poland a member in good standing of the international financial community.

While Poles have a right to celebrate, their less successful neighbours to the east and south would do well to consider how they earned it. The first Polish lesson is speed. Radical economic reforms work best when, as in Poland, they are implemented immediately after the collapse of the old regime, when governments have the greatest credibility and citizens the greatest endurance. The initial caution - or cowardice - of the countries which failed to follow Poland's lead has made their task much more difficult.

The second lesson is steadfastness. Market reforms - as Poles know from the first six months of 1990 when prices soared, and wages and production plummeted - are initially traumatic. But the conclusion that countries like Russia need less shock and more therapy is mistaken. The wiser course, which Polish leaders needed, is to ensure the shock and patiently await the therapeutic outcome.

Even so, shock alone is not

enough. The third Polish lesson is that a package of reforms can be much more than the sum of its parts. Privatisation, the one area in which Russia has moved more radically than either Poland or Hungary, is no bad thing, but it is not the key to successful reform. What matters, instead, is to create a market through liberalisation and macro-economic stabilisation.

Governments must force enterprises to live, or die, in that market, by severing the umbilical cord that ties inefficient state factories to the state treasury, ultimately strangling both.

This is of course, no easy task, because many inefficient state factories must be shut down and their workers be made at least temporarily unemployed. The fourth Polish lesson, which applies with even greater force to Russia and Ukraine, is that westward-looking, at the right moment, can provide a life-jacket for countries about to throw themselves into the initially frigid waters of reform.

The west gave Poland that support, in the form of a stand-by stabilisation loan, followed by debt forgiveness. Kiev's leaders are, for example, still dithering on the brink of radical reforms. The time for the new government of President Leonid Kravchuk to make decisive changes is running out.

They must act radically and comprehensively, as the Poles did, but first they need a firm and detailed promise of substantial western support in reward for taking the plunge.

On Tuesday Marion Barry, convicted four years ago on cocaine charges, was in effect elected for the fourth time as mayor of Washington, DC. On Monday Oliver North, whose criminal conviction on Iran-Contra offences was only overturned on a technicality, was basking all over Virginia in the day-long company of Senator Robert Dole, titular head of the party of Abraham Lincoln.

There might not seem much in common beyond brushes with the law and political ambition between Mr Barry, whose Democratic primary victory virtually assures that he will get his old job back on November 8, and Mr North, who has a good chance of becoming the next US senator from Virginia. But their very disparate supporters - poor and black in the nation's capital and disgruntled and white in the contiguous state to the south - are saying pretty much the same thing and it resonates across the country.

The message, which amounts to

"we want ours", is that the dispossessed and dispossessed, as they see themselves, have had enough of the political establishment.

It was a voice heard loud

time in the 1992 presidential election when 62 per cent of the country voted for Bill Clinton and Ross Perot and against the Washington status quo. But now it is the Democrats who represent the establishment. Mr Clinton's message of "change" is faltering in the public perception while the party cannot hide the fact that it has ruled Congress largely uninterrupted for the past 40 years.

For the Democrats, the triumph

of the disgraced and discredited Mr Barry is simply another embarrassment. For Mr Dole, who earlier this summer had expressed reservations as to whether Mr North was the sort of person he wanted representing his party in the Senate, the prospect of any Republican gain on November 8 is now reason enough to cast personal doubt aside. He has, after all, always fancied his instinct for the jugular and the Democratic throat is invitingly exposed.

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Concern over Adams' plan for US propaganda tour

UK edges closer to lifting Sinn Féin broadcast ban

By David Owen, Jimmy Burns and John Murray Brown

The abolition of Britain's six-year-old broadcasting ban on Sinn Féin may come closer today amid signs that the government is edging nearer to accepting that the IRA ceasefire is permanent.

With London under pressure to respond more positively to last month's IRA announcement, Sir Patrick Mayhew, the Northern Ireland secretary, is expected to use today's first full cabinet meeting for two months to argue that the ban no longer serves any useful purpose.

Conservative rightwingers, however, remain convinced that an early lifting of the ban would be unwise, any move may be delayed until after next month's Conservative party conference in Bournemouth. The sixth anniversary of the ban's imposition will fall on October 19.

Meanwhile, Mr Gerry Adams, the Sinn Féin president, appears ready to conduct a major propaganda tour of the US given that his visa is almost certain to be

granted. Mr Adams is pushing ahead with plans to visit at least 10 US cities, including Washington and New York, though he has not yet submitted a visa application.

A draft programme of the trip is understood to include meetings with Senator Edward Kennedy, a leading Democrat, Mr Tom Foley, Speaker of the House of Representatives, and officials of the National Security Council who advise President Bill Clinton on Northern Ireland policy. There are also plans for Mr Adams to address high profile forums such as the National Press Club and the Council for Foreign Affairs.

Although resigned to the visit, London would be dismayed if Mr Adams succeeded in meeting Clinton administration officials. Senior Conservatives are also anxious that the trip should not coincide with the Tory conference, which begins on October 11.

US, UK and Irish officials are thought to be in agreement that Mr Adams' visit should not pre-cede that of other senior political

figures who are due in Washington in the next two weeks. This suggests the visit could possibly coincide with the Labour conference, beginning on October 3. Mr Adams is anxious to have his US trip well under way before congressional elections on October 7.

As Dublin yesterday welcomed a statement supporting the peace process from IRA prisoners in Belfast's Maze prison, Mr Major indicated the IRA had still not done enough to convince the government that its cessation of violence was for good.

Speaking at Chequers, he hoped the IRA had given up the "intolerable outrages" it had conducted over 25 years but added: "They have not expressly said so." He said he hoped the government could build on the IRA ceasefire but would do so in a way which will be secure."

Mr Major's caution was strongly endorsed by Mr Andrew Hunter, the influential chairman of the Conservative backbench Northern Ireland committee, who said Dublin's "euphoria" was "dangerous and misguided."

US group isolates breast cancer gene

By Clive Cookson, Science Editor, in London

An American research team has won the race to one of science's most sought-after goals - isolating the gene that causes an inherited form of breast cancer.

Dr Mark Scolnick and colleagues at the University of Utah have found the gene, called *BRCA1*, which is responsible for an estimated 3 per cent to 5 per cent of breast cancers, ahead of a dozen other research groups in the US and Europe.

The discovery was announced last night by the US research journal *Science*, which will publish details next month.

At the same time, *Science* said an international team led by Dr Douglas Eaton of the Institute of Cancer Research in the UK was well down the road to isolating a second gene, *BRCA2*, which probably causes another 3 per cent to 5 per cent of breast cancers.

Finding the two genes will enable scientists to develop tests that women with a family history of breast cancer can take to discover whether they are at risk of developing an inherited form of the disease. Prototype tests for *BRCA1* may be available within two years.

Women who know that they carry the genes will be able to monitor their breasts more closely for early signs of cancer - or even have a mastectomy as a precaution.

Those whose tests are negative, despite a family history, will be reassured.

But scientists say the discovery will eventually also help the 90 per cent of breast cancer patients whose disease is not inherited. Random mutations in the same genes are probably involved there too - and understanding the chemical pathway by which *BRCA1* and *BRCA2* trigger cancer will help researchers to develop drugs to treat the disease.

These are very exciting stepping stones on the path to more effective treatment and diagnosis of breast cancer," said Dr Bruce Ponder, a UK Cancer Research Campaign scientist working at Cambridge University on cancer genes.

The search for breast cancer genes has caught the scientific and popular imagination in the US particularly.

Forte buys Méridien hotels

Continued from Page 1

beginning to pull apart from a system of co-operation between carriers, which will open things up in a new way."

The new regime will put pressure on other European operators to agree to sharp reductions in international call prices. Although the US-UK regulators are likely to prohibit using the US as a transit route to mainland Europe, international operators may find ways of manipulating the arrangements.

Mr Thomas Luciano, AT&T's director of international settlements, said: "The industry is

approaching a FFr20bn capital injection from the French government.

According to Air France, Forte has committed itself to maintaining the standard of the hotels in the Méridien chain, assuring its development and keeping its headquarters in Paris.

Air France's decision represents a blow for Accor, which was seeking to add Méridien's 58

four-star hotels to its existing operations. These include the Sofitel, Mercure and Formule 1 chains.

Accor described Forte's offer for Méridien as unreasonably high. "In the interests of shareholders, Accor has declined to match it," the French company said.

Last year, the Méridien group fell into the red, recording a net deficit of FFr29.7m after suffering from difficult market conditions.

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FINANCIAL TIMES
COMPANIES & MARKETS

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IN BRIEF

BK Vision attacks banks' profit fall

BK Vision, the investment company controlled by Mr Martin Elmer's B2 banking group, has strongly criticised the first-half profit stamp of Switzerland's large banks. Page 17

EDF takes stake in Swedish generator
Electricité de France, the French state utility, has negotiated the purchase of a 5.5 per cent stake in Svenska Kraft, the second largest Swedish electricity producer. Page 16

Volvo welcomes new break-up deal
Volvo, the Swedish motor manufacturer, said yesterday it had won a much better divorce deal from Renault than it initially negotiated. Page 16

PTC offering attracts \$1.4bn
Bids from international investors for a placing of six vouchers in the state-run Pakistan Telecommunication Corp (PTC) reached \$1.4bn yesterday, joint global co-ordinator Jardine Fleming said. Page 15

Jardine motors arm moves ahead
Jardine International Motors Holdings, the Hong Kong based car distribution arm of the Jardine Group, yesterday reported a 6 per cent increase in net profit for the six months to June. Page 18

Cost warns on margins despite gain
Cost Corporation, the fast-growing Canadian supplier of private-label beverages, lifted second-quarter earnings by 50 per cent, but confirmed that intensifying competition was eroding margins in some important markets. Page 17

BZW move brings DTE and Matif closer
The French and German futures and options exchanges came one step closer yesterday when a UK bank announced it was ready to trade interest rate futures across a link jointly developed by the two markets. Page 19

India takes on big wheat producers
The Indian government's decision last week to abolish the minimum export price for durum wheat is expected to boost exports and allow Indian wheat farmers to compete with big producers such as the US, Canada and Australia. Page 26

Farmers seek to reduce set-aside
The European farmers' organisation, Cope, has called for a reduction in the amount of cereals and oilseed land set aside or left to lie fallow in the 1994/95 growing season under a European Union scheme. Page 26

ABP ports advances after restructuring
Associated British Ports continued to benefit from the radical restructuring of its port operations, with double profits rising 29 per cent on a 7 per cent increase in port revenues. Page 21

Polyplast maintains growth
Polyplast, the UK manufacturer of plastic pipes and fittings announced results which continue its unbroken run of successive annual profit increases since its 1985 flotation. Page 21

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Chief price changes yesterday

FRANKFURT (DME)					
PARIS (FPV)					
Fluor	645	+ 15	Fluor	487.5	+ 342
Fiat	521	- 14	Fiat	490	+ 14
Deutsche	501	- 12	Alcatel	551	- 14
Merck	445	- 14	Elf	761	- 11
Pirelli	505	- 24	Glyptone	458	- 28
Vest	504.3	- 11.7	Perrier	726	- 23
New York (NY)	311.4	- 4	Fluor	559	+ 21
Fluor	242.1	+ 5	Fluor	654	+ 25
Coupe SA	171	+ 11	Fluor	581	- 15
General	501	+ 1	Alcatel	595	- 65
Quaker	61	- 21	Elf	1430	- 103
Fluor	411	- 1	Fluor	1050	- 123
New York prices at 12.30.					
London (Finance)					
Fluor	721	+ 4	Fluor	226	- 18
Fluor Int'l	129	+ 10	Fluor Int'l	273	- 12
Coupe SA	129	+ 10	Fluor Int'l	123	- 12
General	875	+ 19	Fluor Int'l	143	- 7
Quaker	75	+ 11	Fluor Int'l	2625	- 158
Fluor	144	- 5	Fluor	166	- 5
Fluor	131	- 5	Fluor	204	- 8
Fluor	115	- 28	Fluor	302	- 13
Fluor	731	- 18	Fluor	731	- 18

NordLB buys 10% stake in Berlin bank

By Judy Dempsey in Berlin

Norddeutsche Landesbank-Girozentrale will pay DM4bn (\$645m) for a 10 per cent stake in Bankgesellschaft Berlin in one of the largest German banking deals in recent years.

BGB yesterday confirmed that the state of Berlin will sell a 10 per cent holding - part of its 67.7 per cent controlling stake - to NordLB. The

links arising from the deal will also allow BGB to expand its presence in northern and north eastern Germany.

"This is a strategic decision in which BGB will gain access to more retail banking in the north of Germany, while NordLB will gain important access to the German capital, particularly as this part of Germany begins to expand, and to our international markets," BGB said.

NordLB is one of Germany's largest public sector regional banks. Last year its operating profits, after risk provisions, totalled DM400.4m, a sharp rise over 1992, in which operating profits totalled DM145.9m.

The deal, which could be approved as early as September 22 when NordLB's supervisory board meets, coincides with a period of structural change in Berlin's banking establishment.

BGB was created as a holding and investment banking company in January following the merger of three banking institutions - Berliner Bank, Landesbank Berlin, which owns the savings banks, and Berliner Hypotheken- und Pfandbriefbank, or Berlin Hyp, a property financing institution.

The merger brought together

for the first time in German banking the private and public

sectors. Apart from Berlin's 67.7 per cent stake, 10 per cent is held by Gothaer Insurance Group and the remaining 22.3 per cent by minority shareholders.

BGB's total equity capital is DM7.5bn and its assets total DM220bn. In its first interim results, it reported consolidated operating profits of DM734m.

After taking into account risk provisions totalling DM326m, operating profits came out at

DM408m.

Bank officials said the state was not, as yet, planning to relinquish its majority status. BGB may retain the right to buy back half of NordLB's 10 per cent stake on condition that those shares were sold on to an international bank. "It is too early to say exactly what all the conditions are. But we are close to a mutually accepted arrangement," BGB said.

Forte's control of French chain propels it to new markets, writes Michael Skapinker

Post-Meridien time begins

Throughout this week, the French and UK press confidently predicted that

Forte had won control of Meridien, the international hotel chain owned by Air France.

The only doubter was Forte. The UK hotel and restaurants group's caution partly reflected its fear of the formidable lobbying power of Accor, its French competitor and rival bidder for Meridien. Earlier this year, Accor delayed a sale by Air France to sell the chain to Forte, arguing that it should remain in French hands.

Forte also did not want to be seen as having failed again. Earlier this year it failed to win Ciga, the Italian luxury hotel group, which went to ITT Sheraton of the US.

This week, Forte's 13-year campaign to take full control of Savoy Hotel, the UK luxury hotel group, was thwarted by the Savoy's two-tier share structure. Mr Rocco Forte, Forte chairman, did, however, win the right to be represented on a three-member chairman's committee.

Mr Rocco Forte's decision to sell its stake is in line with its policy of disposing of non-core assets to reduce debts. The company's investment in Northwest represented the largest remaining non-core asset in its portfolio.

KLM said it had taken the opportunity to buy the stake because the move demonstrated its commitment to its alliance with Northwest. The two carriers' combined operations link 170 North American cities with more than 85 cities in Europe, Africa and the Middle East.

Northwest welcomed the move, saying it reflected KLM's "strong belief in Northwest's prospects for the future".

KLM's move comes at a time when other cross-border airline alliances, such as that between British Airways and USAir, have proved troublesome. But KLM appears to have struck relatively lucky with its US investment: Northwest has achieved a return to profitability after coming close to bankruptcy last year.

Forte's acquired its stake in Northwest in 1989 when the US carrier was the subject of an US\$3.5bn leveraged buy-out by an investment consortium put together by Mr Alfred Checchi, a former Disney executive, and his partner Mr Gary Wilson.

At that stage, Forte's - in the form of its predecessor company, Elders IXL - was run by Mr John Elliott, the Melbourne-based businessman. Through its finance arm, Elders agreed to invest in KLM's aircraft, a leading German motor components producer. The complex deal, which would give T&N a dominant position in the German market for some key engine components, must be approved by the German cartel authorities.

Metallgesellschaft, the troubled German metals, mining and engineering group, is to sell its 47 per cent holding in KLM to T&N.

T&N has acquired an option on the Commerzbank-held shares and on a stake of 26.01 per cent to be held by the institutions. The option must be exercised by March 31, 1995. T&N could also take over the remaining 2.5 per cent still held by Magna, giving it an option to acquire a total stake of 25.5 per cent.

Last year T&N bought German-based Goetz, Europe's largest producer of piston rings. KLM, with sales of DM1.5bn (\$1.03bn) in 1992-93, is a leading maker of engine pist

INTERNATIONAL COMPANIES AND FINANCE

Swiss investment group criticises banks' profit fall

By Ian Rodger

in Zurich

BK Vision, the investment company controlled by Mr Martin Ebner's BK banking group, has strongly criticised the first-half profit slump of Switzerland's large banks.

In its report to shareholders for the eight months to August 31, BK argues that the volatile own-account securities trading business is not compatible with the traditional and highly profitable services of Swiss banks.

BK is the largest shareholder in Union Bank of Switzerland (UBS), holding 7 per cent of the capital with a SF12.1bn (\$1.38bn) market value.

UBS, Switzerland's largest bank, last month reported a 28 per cent slide in first-half net income to SF732m, mainly because its profits from trading, at SF1483m, were SF1.05bn lower than in the first half of 1993.

Credit Suisse and Swiss Bank Corporation also suffered sharply lower trading profits.

BK, which earlier this year attacked UBS for having too large a board of directors, called on the banks' boards to make clear their risk policies.

Mr Kurt Schiltknecht, a BK director, said there was nothing intrinsically wrong with high earnings volatility, but investors needed to know where they stood.

Mr Schiltknecht said Swiss banks had to be active traders in support of their large fund management businesses for clients.

Speculation mounts on Sprint mobile deal

By Richard Tomkins

Three US telephone companies yesterday declined to comment on a press report that they were planning to merge their mobile telephone businesses into a grouping that would be even larger than the one being formed through AT&T's \$12.8bn takeover of McCaw Cellular Communications.

One of the companies, Sprint, is a long-distance carrier, and the other two, Bell Atlantic and Nynex, are Baby Bell regional telephone companies.

According to the Wall Street Journal, the three companies are close to reaching agreement on a deal under which their cellular telephone businesses would be merged and marketed under the Sprint name.

The combined operation would serve more than 3m existing cellular subscribers and almost 78m potential customers.

Wall St cool on NBC talk

Wall Street reacted coolly to press reports yesterday that Walt Disney was in talks to buy the NBC television network from General Electric for up to \$5bn, writes Tony Jackson in New York.

GE has been reported in recent weeks as talking to various suitors, including Time Warner, about the sale of NBC.

Disney, in turn, has been

Heinz raises quarterly dividend

By Richard Tomkins

According to a recent compilation by Euromoney magazine, UBS is the third largest fund manager outside the US, with about \$245bn under its control.

However, the question was whether the banks should also be trading in risky securities for their own account.

UBS said yesterday it was not just a fund manager. It aimed to be a global financial services group, strong in credit and trading sectors as well.

It felt the volatility of its trading profits had stayed within reasonable levels in the past few years, with the exception of the first half of 1993, when the result was extraordinarily high.

UBS made a SF11.1m profit for the eight-month period, turning round a loss of SF3.3m in the first four months.

Administration expenses were virtually unchanged from the first four months. No management fee was payable in the latest four months because of the decline of the market value of the shares in the portfolio.

The company charged SF730m against earnings for unrealised losses.

BK reported a SF7.6m net gain on investments in the eight months, compared with a loss of SF3.9m in the first four months.

The holding of Zurich Insurance was reduced by 65,500 shares between April and August while its holding in UBS was unchanged with 18.6 per cent of the registered shares and 3.1 per cent of the bearers.

H.J. Heinz, the US food group headed by Mr Tony O'Reilly, the Irish businessman, lifted its quarterly dividend by 9 per cent to 36 cents and is buying back a further 10m of its shares.

Heinz's stock price has been under a cloud following the company's poor financial performance in the year ending April 1994.

But on Tuesday Mr O'Reilly told shareholders at the company's annual meeting that Heinz was "back on track to deliver double-digit growth in annual earnings in the 1990s".

Mr O'Reilly said one significant area of growth would be baby foods. According to a Reuters news agency report, he told journalists after the meeting that Heinz's board had approved the acquisition of another baby food company in Europe.

Earlier this year Heinz bought the Farley's baby food line from Boots, the UK retailing and pharmaceutical group.

Credit Lyonnais, a state-controlled company, created one of Europe's largest banking networks in the late 1980s

Cott warns on margins despite gain

By Bernard Simon

in Toronto

Cott Corporation, the fast-growing Canadian supplier of private-label beverages, lifted second-quarter earnings by 50 per cent, but confirmed that intensifying competition was eroding margins in some important markets.

The company's latest balance sheet provided ammunition to both supporters and critics of the controversial, Toronto-based company which has been a prime target of short sellers on North

American stock exchanges.

On the one hand, accounts receivable, inventories and long-term debt rose sharply in the second quarter.

However, Cott also reported a large increase in accounts payable, capital assets and goodwill.

Net earnings rose to C\$15.9m (US\$11.5m), 26 cents a share, in the three months to July 30, from C\$10.7m, or 19 cents, a year earlier.

Sales climbed 62 per cent to C\$320m, due mainly to a 39 per cent jump in US volumes, which accounted for more than

half the 64m cases sold during the quarter.

Volumes in Canada rose 12 per cent, while volumes outside North America were up 14 per cent to 9.2m cases.

Gross margins declined to 16.3 per cent of sales from 17.2 per cent last year and 16.5 per cent in the first quarter.

Cott attributed the narrower margins to weak prices in Canada and the low margins of Ben Shaw, its UK canner.

Long-term debt rose to C\$71.3m on July 30 from C\$41.6m three months earlier and C\$23.2m a year ago.

The latest jump was ascribed to ambitious capital investments and a US acquisition.

But Cott said its cash flow was "more than sufficient to fund heavy seasonal demands for non-cash working capital as well as increases in other assets".

Mr Robert Mason, analyst at

Richardson Greenshields in Toronto, said the company "is still considerably under-leveraged".

Its share price lost 12 cents to C\$18.63 in early trading on the Toronto stock exchange yesterday.

Ex-IBM chief to head Canadian films group

By Louise Kehoe

in San Francisco

Mr Robert Corrigan, formerly president of IBM's personal computer business, has been appointed president and chief executive of Imax, a Canadian film production company that has pioneered the use of giant screens, large-format and motion simulation.

Mr Corrigan's appointment is the latest example of the increasing cross-over between the computer and entertainment industries with the development of multimedia technologies.

"The entertainment world is rapidly changing inside and outside the home," said Mr Corrigan.

He added that Imax was poised to capitalise on this by developing and delivering the next generations of hardware and software.

"We are on the threshold of a sophisticated marriage between computer technology and entertainment," added Mr Douglas Trumbull, vice-chairman of Imax.

In another example of the convergence of entertainment and electronics, Mr Strauss Zelnick, former president of 20th Century Fox who for the past two years has headed Crystal Dynamics, a leading Silicon Valley video games software developer, is to become head of BMG Entertainment North America in January.

BMG is a subsidiary of German media company Bertelsmann.

Mr Zelnick will oversee the operations of BMG in the US, including its music publishing and interactive entertainment operations. He will also lead BMG's expansion into film in the US.

● Time Warner's board of directors has appointed Mr Norman Pearlstine the company's next editor-in-chief, Reuter reports.

Mr Pearlstine becomes the fifth editor-in-chief in Time's history on the date of Mr Jason McManus's retirement at the end of the year. He is the first editor-in-chief chosen from outside the company.

Peyrelevade review nears end

By Alice Rawsthorn

in Paris

Credit Lyonnais, the troubled French banking group, expects by the end of the year to have completed its review of its European operations.

Mr Jean Peyrelevade initiated a comprehensive review of Credit Lyonnais' activities outside France when he was appointed chairman last year by the French government, with a brief to rescue the heavily loss-making group.

Credit Lyonnais, a state-controlled company, created one of Europe's largest banking networks in the late 1980s

in a series of acquisitions.

The first phase of the Peyrelevade review was completed earlier this week, when the UK subsidiary of Credit Lyonnais announced plans to cut costs by closing seven offices and branches.

The cuts are concentrated on the retail banking network which, said the group, did not have sufficient critical mass to compete efficiently in the UK.

Credit Lyonnais intends to

concentrate on its more competitive areas of activity in the UK such as corporate banking, private banking and capital markets trading.

Bank of Nova Scotia in Argentina move

By Bernard Simon

Bank of Nova Scotia, Canada's third biggest bank, has extended its investments in emerging Latin American and Asian markets by buying a 25 per cent stake in Argentina's Banco Quilmes.

Scotiabank will pay US\$77m for its interest, which will include an agreement to provide technical services to the Buenos Aires-based bank.

Banco Quilmes has assets of US\$1.2bn and 90 branches, making it Argentina's seventh-biggest privately-owned bank. It is controlled by members of the Florio family.

Scotiabank, which has assets of C\$132bn, has for many years had the most extensive international network of Canada's big six banks, and is the only one which continues to place a strong emphasis on expansion outside North America.

It has taken equity stakes and forged other links with medium-sized financial institutions in Mexico, the Philippines and Thailand. It is in the process of finalising a deal with Iridis Hydraulic, a Malaysian financial-services group.

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Labatt shareholders vote against poison pill

By Robert Gibbons

in Montreal

Shareholders of John Labatt, the Canadian-based international brewer, have rejected management's anti-takeover "poison pill".

The plan would have made it prohibitively expensive to buy control of Labatt, but institutional holders swung the vote at Tuesday's annual meeting, bringing those in favour of rejection to 52 per cent.

The institutions have been

prohibited from buying a

large block of shares in

Labatt for two years.

Management said the pill

was designed to give it time to

pursue alternatives.

Mr Taylor said he knew of no

potential bidders for Labatt.

The company has been widely

held since the Edger-Hees

group divested control nearly

two years ago.

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INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Jardine motors arm moves ahead 6% at midway stage

By Louise Lucas
In Hong Kong

Jardine International Motors Holdings, the Hong Kong based car distribution arm of the Jardine Group, yesterday reported a 6 per cent increase in net profits to US\$38.1m for the six months to June 30, up from US\$38m in the same period last year.

Gains were struck on a 55 per cent surge in turnover, to \$77.5m from \$46.4m, reflecting the acquisition of Cica in Europe. Sales and deliveries into China during the second quarter were hit by the mainland's additional tariffs on vehicles.

The new taxes, effective from

April, put a 150 per cent levy on top-range big-engine cars sold to joint ventures, which make up the bulk of imported car sales.

Mr Simon Keaswick, chairman, said: "The strength of the Hong Kong market and continued recovery in most of the group's other operations will help to offset the effects of higher tariffs in China, and results for the full year are expected to be satisfactory."

Some 77 per cent of the group's profits before interest are generated in Asia. In spite of a strong market in Hong Kong, half-year profits from the colony slipped from the 1993 first half, when a large number of orders was carried

forward from the previous year.

Earnings per share for the half-year rose in line with after-tax profits, up 6 per cent to 7.98 cents from 7.5 cents last year. The dividend is to be held at 1.20 cents.

Jardine International Motors, which is only listed in Hong Kong, has no plans to quit the exchange. However, the issue of a possible de-listing – following the decision by Jardine Matheson and Jardine Strategic to sever their Hong Kong listings at the end of the year – is on the agenda at board meetings today and tomorrow for sister companies Dairy Farm, Mandarin Oriental and Hongkong Land.

Mitsubishi and Daimler extend co-operation

Japan's Mitsubishi group and Daimler-Benz, the German motors and aerospace group, have reached agreements on various engine exchange programmes, as well as on small-scale co-operation in fields including environmental preservation and telecommunications, Reuter reports from Tokyo.

The agreements were announced in a joint statement issued by Daimler-Benz and four Mitsubishi companies.

Mitsubishi Corp, Mitsubishi Electric, Mitsubishi Heavy Industries and Mitsubishi Motors.

Mitsubishi and Daimler-Benz officials met this week to discuss areas of business co-operation. They have met once or twice a year since 1990.

In addition to various personnel exchanges, the statement reported three moderate co-operation agreements.

"There were no big joint projects announced this time. It's just that co-operation between the two companies is gradually building up," an official of Mitsubishi Heavy said.

Mitsubishi Heavy and Daimler agreed to exchange young engineers and managers in preparation for a future joint project.

Daimler-Benz has been seeking for joint development of aircraft, but Mitsubishi had called for engine exchanges, Mitsubishi Heavy said.

The three agreements include the establishment of a 50-50 joint venture between Mitsubishi and Daimler-Benz's wholly owned unit Daimler-Benz Inter-Services, to provide general information.

The statement added that Mitsubishi Motors had agreed to start selling pick-up trucks in South Africa through Daimler's Mercedes-Benz South Africa unit by the end of October, six months ahead of schedule.

Daimler-Benz and Mitsubishi Heavy also decided to continue joint research on the recycling of waste plastics.

The two groups are to seek areas of co-operation in other parts of Asia.

Ever since the Chicago Mercantile Exchange first launched foreign currency futures in 1972 it has been trying to find ways to bring a larger portion of the interbank foreign exchange trade 'on' to its dealing floor. The interbank market, with some \$1,000bn in daily turnover, is a fat target for any of the world's exchanges, but a difficult one.

The interbank market is highly liquid, pricing is straightforward, default rates are remarkably low, and long-standing credit lines back up trading relationships.

In designing its new Currency Forward Contracts, the exchange has drawn on its experience with its very successful eurodollar futures and options contracts. "Currency Forwards have the potential to become a primary swap pricing mechanism like eurodollar futures have become," says Mr Clifford Besser, a former options trader who has spent the past year making markets in the CME's Rolling Spot pit.

Noting that forward swaps (usually a spread with one leg in the spot market and one on a forward date) comprise about 40 per cent of all foreign exchange transactions, the

CME hopes its version of forwards will offer enough incentives that they will eventually win over a substantial amount of interbank trade. Used in conjunction with the CME's year-old Rolling Spot contracts, the exchange products can replicate over-the-counter currency swaps.

DERIVATIVES

Those swaps typically are bets on the movement of the interest rate differentials between two currencies over time.

The exchange says its forwards offer at least three distinct advantages: unlike interbank currency forwards, CME forwards don't tie up bank credit lines, and so are particularly attractive for locking in interest rate differentials between currencies for periods beyond one year; banks trading the exchange products do not have to be concerned with CME capital adequacy requirements; and finally, credit risk is minimal because the CME clearing house acts as counterparty to each trade.

The cost savings using the CME can be significant – in the interbank market, credit lines and capital charges can add up very quickly – but that feature may be lost on bank traders, who are not directly responsible for their transaction costs.

For the CME products to have a chance at success, the exchange will have to attract and maintain sufficient liquidity to keep the nascent market going over the long period it will take to wean banks away from established practices.

Mr Garret Glass, senior vice-president and head of market risk management at First National Bank of Chicago, notes that foreign exchange transaction costs are insignificant to banks on a trade-by-trade basis. However, he says: "Over time, we've found that a bank would be better off using a clearing house for foreign exchange trades."

The CME launched its Currency Forwards on September 12 with a \$10-Mark product, and intends to expand with yen contracts if D-Marks are successful. The forwards are valued at \$250,000 each, trade in one-quarter point "pips", or increments, and settle, in an unusual twist, into the CME's Rolling Spot currency con-

tracts. Unlike the CME's currency futures, Currency Forwards are quoted in European terms, making the product compatible with the OTC market.

The contracts are listed two years into the future and expire on a monthly basis.

Currency Forwards, pitched to please the interbank market, do not have much to offer the potential CME floor trader. The potential market is huge, but particularly in the forward swaps arena, prices do not move much, and provide few short-term opportunities.

This does not bother the exchange, which recognises that the Currency Forward and Rolling Spot contracts, properly marketed, could transform the CME into the world's first foreign clearing house. Rather than depend on local traders, the exchange is relying on member banks to quote both sides of the forward and rolling spot markets.

"Our big challenge is to overcome inertia," says Mr. Besser. "Bank traders aren't very adventurous. We have to get big institutional traders to try us out," he said.

Laurie Morse

CME designs new currency swaps

HK's Morning Post slips 4%

By Louise Lucas

South China Morning Post Holdings, the publisher of Hong Kong's leading English-language newspaper, has reported a 4 per cent drop in annual net profit to HK\$564m (US\$73m) from HK\$586.4m for its first year under the control of Malaysian millionaire Mr Robert Kuok.

Results for the year ended

June 30 1993 were swollen by an exceptional item of HK\$92.4m, from the sale of investment properties.

There were no exceptional items in the latest financial year.

Earnings per share slipped in line with profits, down 4 per cent to 37.51 cents from 39.09 cents. But the dividend is to be maintained at 13 cents a share.

Mr Kuok paid US\$349m to Mr Rupert Murdoch for control of the Post last September.

Arnott's puts off building new factory

Arnott's, the Australian food group, 61 per cent owned by Campbell Soup of the US, said it had put on hold its planned A\$200m (US\$147m) biscuit factory because of the decision by the Australian Prices Surveillance Authority (PSA) to continue monitoring the company. Reuter reports from Sydney.

Mr Paul Bourke, Arnott's managing director, said the new factory, planned to be built in Sydney, was a key part of its push into Asia.

The PSA, a federal body, recently released a report on biscuit pricing.

Arnott's said earlier this year it may shelve plans to build the factory if it was not released from surveillance.

James Capel forms South Africa link

By Mark Suzman
in Johannesburg

International securities house James Capel and South African stockbrokers Simpson McKie have announced plans to form a new company, Simpson McKie James Capel, responsible for the marketing of South African securities through James Capel offices

tion permits. The value of the transaction has not been released.

All 16 current directors of Simpson McKie will be on the new board while James Capel will nominate a further three. Mr Duncan Agar, James Capel international director, said the transaction gave James Capel direct access to the South African market.

According to Mr Dixie Strong, Simpson McKie chief executive, his firm's expertise would be able to provide the new company with top quality South African research, while the James Capel link would provide it with an established global marketing network.

PTC offering attracts \$1.4bn

By Antonia Sharpe

Bids from international investors for a placing of 8m vouchers in the state-run Pakistan Telecommunication Corp (PTC) reached \$1.4bn yesterday, joint global co-ordinator Jardine Fleming said.

The offering had been expected to raise around \$750m for the government of Pakistan. The 8m PTC vouchers, which are exchangeable into shares in the future privatised Pak-

was particularly strong from emerging market funds and from institutional investors in east Asia, the UK and the US. Non-resident Pakistanis in the Middle East also showed a keen interest in the offering.

The strong response from foreign investors prompted the vouchers to close Rs575 higher at Rs6,350 at the Karachi Stock Exchange.

Jardine Fleming is co-ordinating the offering with Muslim Commercial Bank.

Australis Media posts loss of \$19m for year

By Nikki Tait in Sydney

Australis Media, the quoted company which holds one of Australia's two commercially-available satellite television licences and which has pledged to set up a pay-TV system by the beginning of next year, yesterday unveiled a loss of A\$19.1m (US\$14m) in the year to end-June.

Australis said that the loss reflected start-up and establishment costs for both its planned broadcast subscription services and its targeted business.

The company currently runs a handful of special language services and a news service, which are sold to subscribers in Sydney and Melbourne.

The company said that its emphasis over the next few months would be on the completion of programming arrangements.

Advance for Indonesian timber group

By Manuela Saragosa
in Jakarta

that net sales increased to Rp481bn from Rp462bn in the year before.

Bario Pacific has come under fire recently for management at its forest concessions.

The company, which ranks as the world's largest tropical hardwood plywood manufacturer, is majority owned by Mr Prajogo Pangestu. The company also reported

that net sales increased to Rp481bn from Rp462bn in the year before.

Bario Pacific has come under fire recently for management at its forest concessions.

The company also reported

NOTICE OF EARLY REDEMPTION To the Holders of HALIFAX BUILDING SOCIETY (the "Society")

£350,000,000 Floating Rate Notes 1995
(the "Notes")

NOTICE IS HEREBY GIVEN that, pursuant to Condition 5(e) of the Notes, the Society will redeem all outstanding Notes at their principal amount on October 18, 1994.

Payment in respect of the Notes will be made against presentation and surrender, on or after October 18, 1994, of Notes together with all unmatured Coupons appertaining thereto. Such payment will be made in sterling at the specified office of the Principal Paying Agent in London or at any specified office of any Paying Agent by a sterling cheque drawn on or, at the option of the holder, by transfer to a sterling account maintained by the payee with a bank in London.

Interest shall cease to accrue on the Notes from October 18, 1994 and unmatured Coupons relating to the Notes shall become void on such date.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London EC4Y 0JP

PAYING AGENTS

Banque Paribas Luxembourg
10 Avenue de la Bourse
L-2933 Luxembourg

HALIFAX BUILDING SOCIETY By: Morgan Guaranty Trust Company OF NEW YORK - Principal Paying Agent

Dated: September 15, 1994

City of Stockholm

US\$325,000,000

Floating Rate Depositary
Receipts due 2003 issued by

The Law Debenture Trust
Corporation plc evidencing
entitlement to payment of
principal and interest on
deposits with Banco di Napoli
Hong Kong Branch

The receipts will bear interest
of 6.125% per annum from
15 September 1994 to 15
March 1995. Interest payable
on 15 March 1995 will amount
to US\$30.80 per US\$1,000,
US\$307.50 per US\$10,000 and
US\$3,075.51 per US\$100,000.

Agent: Morgan Guaranty
Trust Company

JPMorgan

Notice is hereby given that the notes will bear interest at 5% per annum from 15 September 1994 to 15 March 1995. Interest payable on 15 March 1995 will amount to US\$31.11 and per US\$1,000 note, US\$312.59 per US\$10,000 note and US\$3,125.89 per US\$100,000 note.

Agent: Morgan Guaranty
Trust Company

JPMorgan

Ireland

US\$450,000,000

Floating rate notes
due September 1998

In accordance with the
provisions of the notes, notice
is hereby given that for the
six month interest period
from 15 September 1994
to 15 December 1994 the
securities will carry an
interest rate of 5.31% per annum.
Interest payable on 15 December
1994 will amount to US\$1,280
per US\$1,000 security.

Agent: Morgan Guaranty
Trust Company

JPMorgan

Notice is hereby given that the notes will bear interest at 5.3125% per annum.

Interest payable on 15 December 1994 will be US\$1,280 for Notes in denominations of US\$1,000.

Agent: Morgan Guaranty
Trust Company

JPMorgan

NATIONAL FINANCIERA, S.N.C.

Trust Division

as trustee of the Nafin Finance Trust
(in trust under the laws of Mexico)

US\$200,000,000 Guaranteed Floating Rate Notes due 1997

Unconditionally and Irrevocably Guaranteed by

NACIONAL FINANCIERA, S.N.C.

Notice is hereby given that the rate of interest has been fixed at 7.5025%

and that the interest payable on the relevant interest payment date

INTERNATIONAL CAPITAL MARKETS

BZW move brings DTB and Matif closerBy Richard Lapper
in Paris

The French and German futures and options exchanges came one step closer yesterday when a UK bank announced it was ready to trade interest rate futures across a link jointly developed by the two markets.

BZW Futures, part of Barclays, will shortly begin trading a range of German futures and options from its Paris offices. Other traders are expected to follow over the next few months.

France's Matif and Germany's DTB announced their collaboration 18

months ago. They hope that the link will allow them to compete more effectively with Liffe and other international exchanges.

"This is the most important single development in European financial futures markets for many years," said Mr Graham Newall, chief executive of BZW Futures.

"It is the first trade in a new era in the way futures business will be conducted in Europe," he added, arguing that the development would "enhance liquidity on DTB". The trades have been made possible by the installation of DTB terminals in Paris.

In a second stage of co-operation, Matif, where trades are predominantly carried out through the traditional "open outcry" method on the dealing floor, will allow DTB members to trade two of its products over the German exchange's screen-based trading system.

Subsequently, the two exchanges plan to generate joint plans to develop trading software, clearing and settlement.

The exchanges will be particularly keen to challenge Liffe's 70 per cent share of the market for German bond contracts.

Mr Daniel Hodson, chief executive of Liffe, played down the threat, arguing that the London exchange offers a wider range of products, greater liquidity and better distribution than its European rivals, which "tend to be seen as domestic exchanges".

He said, however, that the tie-up could succeed in attracting new players into the marketplace.

Liffe would not lose any "significant percentage" of its bond business to the DTB, he predicted.

Collaboration between Liffe and its European counterparts is likely to remain limited, Mr Hodson said.

Gilts slip on UK inflation worries and European falls

By Martin Brice and Antonia Sharpe in London and Frank McGurk in New York

fall of 1½ point on the day.

Comments by the Bundesbank's vice-president, Mr Johann Wilhelm Gaddum, which suggested that further

GOVERNMENT BONDS

interest rate cuts were unlikely and stronger-than-expected wholesale data on August August Analysis said the fall then gathered pace on

worries over the government's anti-inflation policy.

Gilts fell initially on a higher-than-expected rise in the Retail Price Index of 2.4 per cent for August. Analysts said the fall then gathered pace on

worries over the government's anti-inflation policy.

Mr Simon Briscoe at

S.G. Warburg said the decision by UK Chancellor Kenneth Clarke to raise the base rate by 50 basis points to 5.75 per cent on Monday had been presented as a move to pre-empt inflation.

However, some dealers now believed the move was in response to the RPI figures which they suspected the Chancellor knew about on Monday.

"People had been led to believe that the authorities made this [interest rate] decision without [RPI] numbers," he said. "There is now uncertainty about policy and that has made the market nervous today."

Mr Andrew Roberts, at UBS, said gilts were unlikely to rally as long as the market felt Mr Clarke was increasing interest rates in response to inflation, instead of moving to stifle it.

But Mr Nigel Richardson, at Yamaichi, said: "Really there is no significant inflation problem in the UK, so Monday's rate rise is still pre-emptive."

The yield spread between gilts and bonds widened from around 138 basis points on Tuesday to around 150 yesterday. On Liffe, the December long gilt future traded at 88½ in late trading, a

basis points to 7.60 per cent.

The weakness in bonds prompted the spread between German and French bonds to go below 50 basis points at one point during the day. However, dealers said the narrowing spread did not necessarily reflect greater investor confidence in the French market. On the Matif, the December notional bond future was barely changed at 110.90.

US Treasury bonds dipped yesterday morning on news of a surprising increase in retail sales, excluding cars.

By midday, the benchmark 30-year government bond was down at 97.7%, with the yield rising to 7.88 per cent. At the short end, the two-year note was unchanged at 92.5, to yield 6.31 per cent.

The day's economic news was mixed, but on balance it only darkened the mood of traders already gloomy about recent evidence of inflation.

As the session began, the Commerce Department announced that retail sales last month were up 0.8 per cent, against forecasts which centred on a 1 per cent gain.

But enthusiasm over the favourable headline figure was dampened by evidence that much of the growth had come from outside the motor vehicle sector. Excluding automobiles, August sales climbed 0.7 per cent, much higher than the 0.4 per cent increase which had been expected. An unusually sharp downturn in sales by restaurants and bars last month also supported a negative interpretation of the report as a whole by suggesting the sales in other areas were strong.

In the end, traders were left with the impression that the recent series of monetary tightening were having little success in cooling the economy.

ITC Classic seeks link with BAT unit

By Kunal Bose in Calcutta

ITC Classic Finance, the Indian financial services group, is seeking a partnership with Threadneedle Asset Management, a BAT subsidiary, in order to promote an asset management company in India.

Mr Farooq Vavania, an ITC Classic director, said the two companies had started discussing "the various aspects of the proposed collaboration, including the participation in the equity capital of the asset management company to be formed. I think the collaboration will take a definite shape by the end of this year".

ITC Classic has been given permission by the Securities and Exchange Board of India to launch mutual funds. But, as Mr Vavania pointed out, "we need expertise and technology to design and operate close and open ended schemes. A tie-up with Threadneedle will take care of that".

Threadneedle has invested in Indian companies through its emerging markets fund.

ITC Classic had tried to promote the asset management company in partnership with Peregrine of Hong Kong.

Halifax launches first FFr offering

By Tracy Corrigan

Halifax Building Society yesterday launched its debut offering in the French franc market, following a series of investor presentations in Paris last week.

Although the Halifax is now the best-rated financial institu-

tion in the UK, building societies have often fared poorly with overseas investors because they are perceived as rather parochial entities. However, the success of the Abbey National, which has become one of the most active borrowers in the international markets since its conversion to bank status, has inspired other societies to step up their marketing efforts with international investors in an attempt to reduce wholesale funding costs.

A Halifax treasury official described the deal as "part of a consistent process to establish a presence on the world's principal markets".

The seven-year offering of 8 per cent bonds was priced to yield 26 basis points above the comparable OAT, a level which

dealers said was aggressive, relative to deals by better-known French borrowers.

However, there is currently a dearth of paper in the French market, particularly at current coupon levels.

The lack of new issues is partly due to poor swap opportunities. However, the Halifax deal was swapped into floating-rate sterling at a level slightly higher than the society normally pays for borrowings under its medium-term note programme, an official said.

Joint lead manager SBC esti-

mated that around half the deal was placed overseas and half in France.

In the D-Mark sector, KFW, the German development agency, launched a DM1bn offering, which successfully reopened the 10-year sector after a five-month lull. Priced to yield 25 basis points over the 10-year bond, dealers said the spread was sufficiently attractive to appeal to both international and domestic investors, unlike a number of recent D-Mark offerings which were too aggressive compared with

paper available in the domestic market.

Joint lead manager J.P. Morgan reported a 50/50 split. The spread held steady at 25 basis points, after the syndicate broke.

In the dollar sector, two banks launched fixed-rate deals, while three banks launched floating-rate transactions. Among the floating-rate deals, the Bank of Melbourne brought an initial \$25m offering of floating-rate notes, bearing interest of 26 basis points over three-month Libor.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
U.S. DOLLARS							
Bank of Melbourne	300	(6)	99.88R	Oct. 1997	0.15	-	-
State Bk Corp/Cayman	70	7.0	100.47R	Oct. 1997	0.17R	-	-
Swiss Bank Trans. Bldg	150	(12.5)	98.50R	Oct. 1998	0.30R	+50G	CS First Boston Swiss Bank Corp.
CS First Boston	150	7.75	99.88R	Oct. 1998	0.30R	-	JP Morgan
CSL/Latinam. de Export	100	6.25	99.90R	Oct. 1995	0.10R	-	-
Forus Bank AS (Norway)	75	(6)	100	Sep. 2004	0.50	-	-
AUSTRALIAN DOLLARS							
Bayreuthsche Verbank	100	10.25	100.175	Oct. 2004	2.125	-	-
FRENCH FRANCS							
Habill Building Soc.	3bn	8.00	99.38R	Oct. 2001	0.325R	+28 G/H-01	Paribas / SBC
D-MARKS							
KFW Int'l Fin.	1bn	7.75	99.38R	Oct. 2004	0.325R	+25 G/H-04	JP Morgan / West LB
SWISS FRANCS							
Credit Local de France	150	5.375	102.125	Oct. 1998	-	-	-
DEUTSCHE FRANCS							
Merill Lynch AG	100	9.00	101.05	Oct. 2004	2.25	-	-
U.S. TREASURY	7,250	8.00/8.25	98-28/29	7.42	7.23	7.13	-
7,500	11.24	98-24/25	7.32	7.37	7.30	-	-
7,500	11.04	98-24/25	82.9800	0.300	0.61	0.53	-
ECU (French Govt)	5,000	8.00	98-05	7.45	7.20	7.12	-

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. GConvertible; #Floating rate note; R: Red-offer price; F: floating rate note. a) Amount increased from \$250m. B: 3m th Libor +150bp. b) Floating rate note. c) Premium 1-6%. d) to year 5, to yield between 6.4-6.6%. e) Spread is over the interpolated yield. f) Amount increased to \$250m. Coupon pays 6 mth Libor +50bp. Long first coupon. g) Coupon pays 6 mth Libor +150bp for first 5 years, then pays 6 mth Libor +100bp.

Est. vol. total, Cais 734 Puts 218. Previous day's open int., Cais 800 Puts 1242

ITALY**NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LFFE) £100m 200th 100% of 100%**

Price Open Set price Change High Low Est. vol. Open int.

Dec	95.65	95.63	-0.13	95.22	95.65	4,000	63,402
Mar	95.20	95.38	-0.06	95.35	95.20	4,300	340

Index-linked

6 Up to 5 years [2] 119.40 -0.20 119.75 1.75 8.01 5 yrs

15-25 years [2] 138.66 -0.37 137.99 1.65 9.60 15 yrs

Over 15 years [9] 152.13 -1.38 154.27 1.33 8.81 20 yrs

4 Intermediate [6] 174.10 -1.28 176.32 2.78 8.83 10 yrs

5 All stocks [60] 134.71 -0.86 135.84 1.67 9.15

Index-linked

6 Up to 5 years [2] 185.20 -0.07 185.33 0.96 3.95 Up to 5 yrs

7 Over 5 years [11] 170.75 -0.49 171.73 0.55 3.95 Over 5 yrs

8 All stocks [13] 171.36 -0.45 172.27 0.57 3.94

Debentures and Loans

9 Debt & Loans [79] 125.87 -1.32 127.55 2.28 7.84

Average gross redemption yields are shown above. Coupon Bands: Low: 0%W-7%W; Medium: 8%W-10%W; High: 11% and over. 1: Flat yield; 2: flat to date.

FT/ACTUARIES FIXED INTEREST INDICES

COMPANY NEWS: UK

Upturn in UK building materials market fuels the advance

Camas 44% ahead to £4.9m

By Andrew Taylor,
Construction Correspondent

Increases in sales and prices in UK building materials lifted pre-tax profits of Camas, Britain's fifth largest aggregates group, by 44 per cent from £3.4m to £4.9m in the first six months of 1994. Turnover grew from £174m to £210m.

The company yesterday announced its first half year figures since it demerged from English China Clays at the beginning of June.

Mr Alan Shearer, chief executive, said the first-half profits had gained from an initial contribution from the Kest building materials businesses, acquired in the US for \$31.5m (£21.5m) earlier this year.

Camas, which is paying an interim dividend of 1.25p, expects to pay a total of at least 3.75p this year. Earnings

per share rose from 9.96p to 1.6p after adding back £1.5m exceptional costs of the demerger.

Profits from the European division, of which the UK accounts for about 90 per cent, rose by more than a third to £2.7m (£5.5m). Sales volumes of crushed rock, sand and gravel rose by about 13 per cent. Prices had increased by an average 10 per cent since the beginning of the year.

The sales increase was mainly the result of a sharp rise in private sector house-building and increased private industrial construction. Coated stone sales had risen by 5.6 per cent, reflecting a higher level of road construction and maintenance, said Mr Shearer.

Profits from Minneapolis and St Paul, the group's other regional US business, were slightly higher than at the same stage last year.

Net debt at the end of June was £75.2m, representing 34 per cent of shareholders' funds of £223.1m. The company said

that this was likely to reduce to about £20m, with 30 per cent gearing, by the year end.

• COMMENT

The UK has performed better than expected and the US worse because of the delayed opening of the Denver airport, which is likely to continue to affect the group into the first half of next year. A few eyebrows also might be raised at the company's report of increased costs in its non-aggregate UK building materials business. Elsewhere there were few surprises. Pre-tax profits of £1.8m this year and £2.8m next would put the shares on prospective multiples of more than 18 and 14, which is fair value but already in the price – which should be expected for a company which published its demerger prospectus only four months ago.

Mr Leon Allen, chairman, said the company was "continuing to progress as planned." It would continue to examine opportunities around the world "to extend and improve our product range."

Sales rose 3 per cent to £47.5m (£24.5m), of which 1 per cent was due to exchange rate factors.

Devro, which was founded by Johnson & Johnson, was floated on the stock exchange last year after earlier being bought out by its managers.

The company said it had done well in the first half in the UK, the US and the Australian markets, in all of which it has manufacturing plants. But it suffered a 13 per cent drop in sales in Japan, mainly because of recession.

New product lines are being brought out for the Japanese and Scandinavian markets. New manufacturing plant has been installed at Bellahill in Scotland to increase output of collagen film.

Devro is also testing a new product, aimed at the US market, for sausages of up to 45mm diameter, compared with its present limit of 30mm.

Despite increased raw material costs, operating margins rose from 27 per cent to 29.5 per cent. Interest received of £100,000 (£470,000 charge) reflected increased cash on the balance sheet of £2.2m, against £2.4m at December 31.

Earnings per share were 7.5p (6.4p) and an increased interim dividend of 2.35p is being paid (2.06p).

ECC has cut its workforce heavily in recent years, so should benefit quickly from any increase in volumes, even without hoped-for price increases. We are pleased by signs that this operational gearing is already being demonstrated in Europe, but remain puzzled as to why the US paper industry seems to be recovering so slowly. With gearing of only 30 per cent, Mr Teare has plenty of elbow room to pursue his strategy of growing the speciality chemicals business by acquisition. Forecast full-year profits of £10.6m put the shares, down 10p to 33p yesterday, on a prospective multiple of 17. The premium to the market increases if one strips out the contribution to earnings from land sales. That seems reasonable, at least until the US situation becomes clearer.

Devro at £14m seeks to expand range

By Alison Smith

Devro International, the Scottish-based company which makes sausage casings out of the protein collagen, made pre-tax profits of £14.1m in the six months to June 30, a 17 per cent rise on the pro-forma figures of the corresponding period of 1993.

Mr Leon Allen, chairman, said the company was "continuing to progress as planned." It would continue to examine opportunities around the world "to extend and improve our product range."

Pre-tax profits rose to £14.1m (£24.5m), while provisions fell by 15 per cent to £1.65m (£1.83m).

Mr Terry Thomas, managing director, said he expected provisions to fall further

Co-op Bank aided by lower bad debt provisions

By Alison Smith

A combination of lower provisions for bad and doubtful debts and higher operating income helped Co-operative Bank to a 37 per cent rise in pre-tax profits for the year to late July.

As well as announcing the interim results, the bank sought to underline its commitment to service for customers by launching a guarantee in five areas of service where it will pay £10 compensation each time it fails to meet the standards it has set itself.

Pre-tax profits rose to £11.65m (£22.7m), while provisions fell by 15 per cent to £1.65m (£1.83m).

Mr Terry Thomas, managing director, said he expected provisions to fall further

bank's five guaranteed service standards for its 2m personal customers covered areas such as dealing correctly with standing orders and direct debits, and swift decisions on over-drafts or personal loans.

It amounted, he said, to a challenge to the other banks to offer similar guarantees. The bank estimates there will be significantly fewer than 40,000 errors a year. He dismissed the promise made by Midland Bank of £10 compensation for each error made in transferring a customer's current account from another bank as a "nine days' wonder."

Terry Thomas

COMPANY NEWS: UK

Radical restructuring of port operations helps achieve 29% rise

AB Ports advances to £38m

By Simon Davies

Associated British Ports continued to benefit from the radical restructuring of its port operations, with taxable profits rising 29 per cent on a 7 per cent increase in port revenues.

The port operations' workforce has fallen from 9,500 to 1,800 since 1988, and with its reduced and largely fixed cost base, increasing revenues flow comparatively directly into profits.

Pre-tax profits for the six months to June 30 amounted to £38m, up from £28.4m, despite only a 1.8m increase in turnover to £90.4m.

Severance costs fell from £2m to £800,000, with 30 layoffs so far this year. However, there were no fixed asset sales, which had provided £1.5m of profit in 1993.

A number of high turnover operations have been closed, but the ports' total throughput increased by 4 per cent during the period, rising from 53m to 55m tonnes.

Sir Keith Stuart, chairman, was upbeat about the performance, saying: "prospects for the group are excellent, with our ports well placed to take advantage of the upturn in the UK economy and expanding



Sir Keith Stuart: prospects for the group are excellent

world trade".

The Southampton Container Terminals, jointly owned with P&O Containers, saw a 22 per cent increase in container throughput, and trans-shipment cargo rose 50 per cent, as it took business from other European ports.

Profits from port operations rose from £28.4m to £25.7m, and income from the leasing of port-related property and land

increased from £10.2m to £11m.

The company has invested consistently in its port and transport facilities, and plans to maintain annual capital expenditure at between £50m and £60m.

During the period, it invested £28m. Net borrowings rose to £34m (£24m at December 31); however, gearing fell from 52.5 per cent to 51.4 per

cent, and uncapitalised interest costs were £15.2m (£17.1m).

Property investment income rose from £5.6m to £5.8m, in spite of the impact of last year's property sales.

Property development profits fell from £1m to £500,000, but the sales programme is likely to accelerate over the next one to two years, as ABP refocuses on property adjacent to its port operations.

The interim dividend is being increased from 1.75p to 2p, with earnings per share of 7.0p (5.5p).

• COMMENT

First it was obstructive labour practices, and then its dabbling in the property market, but ABP's future is now looking better than ever. With high operational gearing, profits will rapidly outpace a steady recovery in revenues. ABP should continue to win business from the continent and smaller British ports, while trade continues to expand with the growing economy. Analysts are looking for up to £15.5m profits for the full year, putting the shares on a premium p/e rating of 17.4. Given the strength of core earnings, and the renewed potential for property profits, there should be more growth to come.

£4m loss at Gent after retail withdrawal

By Richard Wolfe

A withdrawal from retail activities led to pre-tax losses of £4.28m at ST Gent, the Marks and Spencer garment supplier, for the year to June 30.

The group reported a downturn from pre-tax profits last year of £2.52m, despite turnover rising 7 per cent from £19.8m to £21.2m.

Retailing losses stood at £1.5m, including a provision of £7m of exceptional costs to cover the sale of Susan Woolf, a chain of women's fashion stores.

However, the group's core business of garment production posted a 20 per cent rise in operating profits to £7.12m (£5.93m), while turnover rose just 1 per cent to £117.5m (£116m).

Mr Peter Wolff, chairman, said the Barnsley-based group was completing a strategy of moving 50 per cent of its garment production overseas. The company owns 25 per cent of a manufacturing company in Sri Lanka, with a workforce of 14,000. "We are going back into our core business of manufacturing," he said.

Demand from Marks and Spencer is expected to rise this year as the group enters the menswear clothing market for the first time. The company has also seen growing demand for cinema-related merchandising in children's clothes.

The pre-tax profits figure was struck after net interest charges up from £1.83m to £2.4m, although the share of associates' profits rose to £750,000 (£430,000 losses).

The shares closed up 6p at 75p yesterday. Earnings per share fell from 3.2p into a loss of 1.2p this year, after exceptional costs.

The final dividend was again 1.35p for a total of 2.25p (2.1p).

Polypipe maintains growth with 20.5% rise

By Peter Pearce

Polypipe, the manufacturer of plastic pipes and fittings and other domestic plastic products, yesterday announced results which continue its unbroken run of successive annual profit increases since its 1985 flotation.

Pre-tax profits for the year to June 30 grew 20.5 per cent to £20.6m (£17.1m) on turnover ahead 21 per cent at £145.4m (£120.5m).

Operating profits rose 20 per cent to £20.9m (£17.4m), before unchanged net interest payable of £300,000. The shares rose 5p to 144p yesterday.

Mr Kevin McDonald, chairman, managing director and owner of 21.2 per cent of the group, ascribed the maintenance of margins to three essential factors.

First, he spoke of "the group's consistent strategy of investment in a substantial and continuing capital expenditure programme". In the year this rose to £15.3m (£12.5m), against depreciation of £8.9m (£7.2m). Planned expenditure

for the current year was £12.5m, with, said Mr Bryan Stock, finance director, "5m to 6m on plant, £3m on tooling, £1m on buildings and the rest on lorries".

Second, on the expansion front, the group bought Allerton Glass - now merged with GCA Windows - in June 1993, and last May it spent up to £10.1m on Janoplast, the Alsace-based manufacturer with 11 per cent of the French plastic conduit market.

The French company, Polypipe, accounts for 45.5 per cent of the group's selling prices, but Polypipe does not earn the earth for cheaper supplies. Polypipe is also sensible in the way that some 60 per cent of its capital expenditure goes into profit generating areas, with the figure rising to 70 per cent in the current year. The recovery in the refurbishment market, echoed by Caradon on Tuesday, should take the eye off flattish profits at Janoplast for a year or two. With forecast pre-tax profits for the year at £24m, the shares are on a multiple of 14, in line with the sector, but perhaps with more to play for.

the year-end and cash balances of £1.8m (£8.7m).

Earnings rose 19 per cent to 8.83p (7.4p) and the recommended final dividend is raised 10 per cent to 1.55p for a total of 2.3p (2.1p).

• COMMENT

The biggest question exercising the City over Polypipe is: can it forever pass the rises in raw material prices on to its customers? The answer seems to be yes, for now. PVC

accounts for 45.5 per cent of the group's selling prices, but Polypipe does not earn the earth for cheaper supplies. Polypipe is also sensible in the way that some 60 per cent of its capital expenditure goes into profit generating areas, with the figure rising to 70 per cent in the current year. The recovery in the refurbishment market, echoed by Caradon on Tuesday, should take the eye off flattish profits at Janoplast for a year or two. With forecast pre-tax profits for the year at £24m, the shares are on a multiple of 14, in line with the sector, but perhaps with more to play for.

Argent £448,000 in black

By Simon London, Property Correspondent

Argent, the property investment and development company which made its Stock Exchange debut in May, reported a pre-tax profit of £448,000 in the six months to the end of June against a loss of £1.2m last time.

However, last year's figures did not include profits from Argent's portfolio of investment properties which were held off-balance sheet in joint venture until March.

Yesterday's result includes rents and interest payments on that portfolio from March 11, the date of consolidation.

Rental income amounted to £3.98m in this period and interest costs £3.05m.

Administrative expenses at £1.15m (£647,000) were higher as a result of the additional staff costs and expenses arising from quoted company status.

Mr Peter Freeman, joint chief executive, said he expected administration costs for the full year to be about £1.7m. Earnings per share were 1.3p.

Since flotation Argent has completed two large deals. At its Brindleyplace development in central Birmingham, the company let 120,000 sq ft of office space to British Telecommunications on a 15-year lease and

acquired an adjacent 170,000 sq ft building - also let to BT - for £5.1m.

British Airways Pension Fund has agreed to finance the development of an additional 60,000 sq ft office building at Brindleyplace.

At the end of last month, Argent acquired 28 acres of land at the Thames Valley Business Park in Reading for £1.74m and immediately sold seven acres for £5.8m.

Mr Freeman said that the company was considering development options for this site.

The shares closed down 2p yesterday at 275p, well above the offer price of 255p in May.

London Forfaiting declines to £7.34m

By Christopher Price

London Forfaiting, the specialist trade finance group, yesterday reported a 30 per cent drop in pre-tax profits from £10.5m to £7.34m for the first half of the year.

The company blamed volatile conditions in the eurobond market, particularly in the emerging markets, for the downturn. Trading income declined 5.5 per cent to £14.7m (£15.5m), while earnings per share fell from 8.63p to 5.33p. The interim dividend is maintained at 3.3p.

Mr Jack Wilson, chairman, said that the core export finance business, which is involved in making fixed-rate loans, had performed well.

In particular, the eastern European export market had turned up, and the company was continuing to see good returns from its financing of European exports to Asia and South America. To this end, the group had opened an office in Stockholm to tap the Swedish export finance market.

The transferable loans business was another bright spot. New loans worth more than £1m had been arranged so far this year for Asian borrowers.

These included London Forfaiting's first foray into the Japanese market with a \$100m transferable loan for Takefuji Corporation. There was also a \$170m floating note facility for a Bangkok bank. More than 80 per cent of the company's revenues are earned overseas.

However, Mr Wilson said that the continuing uncertain bond market conditions made it impossible to give a prediction on current trading. The fall in profits had been well flagged by the company, which had warned at the annual results of tough trading conditions, but came in ahead of market expectations. The shares climbed 11p to 175p.

Capital Inds up slightly at £2.5m

Pre-tax profits at Capital Industries, the financial services and packaging materials group, edged ahead from £2.41m to £2.51m in the first half of 1994, a period of consolidation, said Mr David Rhead, the chairman.

The industrial side contributed operating profits of £2.62m (£2.52m) on turnover of £35.8m (£32.4m) while financial services contributed a static £2.82m on sales of £2.8m (£2.23m).

Earnings per share improved from 6.9p to 7.2p and the dividend is lifted to 2.1p (2p).

Caird cuts losses

Caird Group, the waste management company, yesterday bore out the chairman's year-end forecast that a recovery was under way, reporting a reduced pre-tax loss of £21,000 for the six months to end-June.

The improvement, achieved on turnover down from £3.75m, compared with a deficit of £25.1m. At the operating level there was a profit of £221,000 (£1.2m loss).

The group's bankers have waived interest during the period and have accepted instead profits-related pay-

ment for the two years to December 1995. Consequently the interest charge this time was cut to £522,000 (£749,000).

Losses per share were 4.2p (4.55p).

Lambert Howarth

Shares in Lambert Howarth Group fell 7p to 143p yesterday after pre-tax profits tumbled from £78.4m to £64.2m in the first half of 1994.

Turnover was £2.7m higher at £31.4m, with the greater part attributable to acquisitions on safety footwear. Earnings per share fell to 3.1p (6.5p) but the interim dividend was held at 2.25p.

Roskel edges ahead

Roskel, the specialist suspended ceilings contractor and partitioning and ceilings division, reported pre-tax profits marginally ahead from £228,000 to £232,000 for the six months to end-June.

Group turnover for the period was up at £23.7m, against £21.7m which included £1.45m from discontinued activities. Earnings were 2.34p (2.23p) per share and the interim dividend is maintained with a 1.3p distribution.

Stat-Plus static

Stat-Plus Group, the legal stationery, printing and publishing group, turned in virtually unchanged pre-tax profits of

£1.81m for the first half of 1994, against £1.82m last time.

Sales rose by 3 per cent to £6.2m. Earnings per share were 5.6p (5.7p) and the interim dividend is raised to 4.33p (4.4p).

Era loss jumps to £0.25m

Era Group, the construction and housebuilding company, reported a jump in pre-tax profits from £88.000 to £92.000 in the half year to June 30. For 1993 there were losses of £2.17m.

Turnover of continuing operations slipped to £60.1m (£51.9m) but operating profits rose from £38.000 to £48.000.

Earnings per share came through at 0.34p (0.08p) basic and 0.37p (0.11p) fully diluted. The interim dividend is held at 0.5p.

Arlen turns in £1.2m

Arlen, the electrical manufacturer and distributor, has achieved a pre-tax profit of £1.2m for the first half of 1994 on sales from continuing

operations of £1.1m.

Earnings per share were 1.1p. The company, which came under the control of a new management team a year ago, said comparisons were difficult since the business had been reorganised and the year end changed. But it stated that for the nine months to December 31, 1993 there was a loss of £6.81m.

The improvement was achieved on turnover up from £14.1m to £15.7m. Earnings per share came out at 15.5p (14p) and the final dividend is being raised to 4.7p (4p) making 6.9p (6p) for the year.

Indi Biotechnology

International Biotechnology Trust, which was launched in April, reported a net asset value per share of £6.24p at the end of August.

Net revenue for the period ended August 31 was £190,886 and earnings per share came to 0.61p.

Middlesex advances

Middlesex Holdings turned round an £81,000 loss into a pre-tax profit of £1.57m in the

first half of 1994 on sales up sharply from £558,000 to £12m.

The company said considerable progress had been made in providing support services to natural resource industries in the Commonwealth of independent States.

Earnings per share for the period came to 0.23p (0.04p loss).

F&C High Income

COMPANY NEWS: UK

Aegis rises to £14m aided by refinancing

By David Blackwell

Last October's £60m refinancing package was behind a sharp improvement in interim pre-tax profits at Aegis, the London-based holding company of Europe's largest media-buying and planning group.

The pre-tax figure rose from £9.7m to £14.6m on flat turnover of £1.45bn. Interest turned from £1.6m to £900,000. However, operating profits for the six months to June 30 fell by 27 per cent from £21.3m to £15.8m. The fall, which more than offset a reduction in operating costs to £26.2m (£25m), reflected a decline of just over £10m in gross income in France, where a law introduced last year slashed media-buying revenues.

Mr Roger Parry, group development director, said the figures had been transformed by the refinancing. "They reflect no significant improvement in trading, but they do show a significant improvement in the balance sheet."

The shortfall in shareholders' funds improved from £22m to £15m. Net debt at the end of the half was down 51 per cent at £26m (£27m).

However, net cash outflows of about £3m were expected in the second half, including payment of a £42m fine to the Conseil, or French monopolies commission, for trading practices before the *Loi Sapin* was introduced last April. This would result in net debt reaching about £20m at the year end.

The group remains extremely cautious over prospects in France, introduced French business produced 27



Charles Hochman: retiring as chief executive officer next month

per cent of turnover and more than 30 per cent of profits.

Operating margins overall fell from 5.5 per cent to 4.9 per cent in the period, reflecting the "cut-throat competition" in both France and Spain.

Northern European business was better, particularly in the UK, where turnover rose 30 per cent.

Earnings were 11p (2.2p).

There is no dividend this year. Mr Crispin Davis, formerly with United Distillers, takes over as chief executive next month from Mr Charles Hochman, who is retiring. Shortly afterwards a new finance director will be appointed.

• COMMENT

The benefits of last October's

refinancing are clearly shown. Aegis now looks much more financially sound and a rate of new appointments will strengthen management. With operating costs coming down, the company is well poised to take advantage of any improvement in southern Europe once recession ends, although it is becoming extremely cautious in its forecasts and the pressure on margins is severe. It is continuing to win good new business, so the flatness of the turnover is a little disappointing.

Full-year profits of £28m this year and £30m for 1995 both translate into unexciting earnings of about 2p since the tax charge will increase.

• COMMENT

The benefits of last October's

Cold winter and cost cuts behind advance at Calor

By Peggy Hollinger

A cold winter and cost-cutting helped Calor Group, the bottled gas supplier, increase interim pre-tax profits by 13 per cent from £27.6m to £31.1m in spite of a 3 per cent drop in turnover from £153m to £148m.

Mr Hamish Macpherson, group treasurer, said the cold snap between January and March had helped to improve volumes, which rose by 6 per cent. "People were keeping the gas fires burning a little bit longer," he said.

However, the benefits of improved volumes were offset by lower butane and propane prices. The trading climate remained difficult, Mr Macpherson said, although the decline in prices had begun to stabilise.

The treasurer said Calor had maintained its more than 50 per cent share of the UK liquid petroleum gas business, despite fierce competition.

Calor's profits were also helped by the continuing pro-

gramme to cut costs. Since 1990, Mr Macpherson estimated the group had cut some £15m a year from on-going costs. Operating profits in the first half rose by 9 per cent to £30.3m. Profits in the core gas business increased by 6 per cent to £31.1m.

The group finished the first half with net cash of £60m. Calor's strong balance sheet would allow it to seek acquisitions abroad in its main LPG business. Mr Macpherson said Calor would look for opportunities both with its 46 per cent shareholder, SHV, and independently.

The LPG joint venture with SEV in Poland, Hungary and Slovakia was breaking even. Calor invested £200,000 in the business in the first half.

The drinks dispensing operation - where Calor leases air separation systems to brewers and pub chains - reduced its losses from £1.6m to £1.1m. This business was expected to break even next year.

The dividend is maintained

at 8p. Earnings were 13 per cent higher at 11.7p (10.4p).

• COMMENT

These results are yet again a demonstration of how value can be extracted from the LPG market - even if it is a mature one. By passing on the benefits of increased purchasing to customers, reducing costs and holding margins, Calor has built itself a net £60m cash pile. The problem now is what to do with it. There are likely to be a few exciting opportunities to buy into the international LPG market, and those that are around will take some time to develop. Shareholders facing little excitement in the short-term will be wanting to see some of that cash find its way into an increased dividend. Forecasts are for just that. Profits are expected to rise to 25p this year, along with a small boost to the payout of 1.5p for a total of 18p. The yield of almost 6 per cent against the market's 4 per cent is Calor's biggest attraction.

Advance by bingo clubs helps Vardon to £1.54m

By Caroline Southby

A strong performance from bingo clubs helped Vardon, the leisure group which also owns the London Dungeon, increase pre-tax profits from £540,000 to £2.5m at the interim stage.

Vardon's visitor attractions also advanced strongly, contributing £7.53m (25.44m) to total turnover of £21.7m (£24.45m) in the six months to the end of June. The bingo division contributed £5.1m (£1.62m) to sales while operating profits rose from £79,000 to £246,000.

"Our strategy of developing ourself-built, edge-of-town, high quality facility bingo clubs is proving correct. The new clubs are attracting younger and more affluent players," Mr David Hudd, chairman, said.

Vardon runs 11 bingo clubs, five of which have been specifically built on the outskirts of towns, mostly near shopping complexes with parking facilities.

The company has plans for four new clubs, including one in Croydon which will be the biggest in the UK with a capacity for 3,200.

The attractions division, which includes 15 sea life centres, a Cornish seal sanctuary and the London and York Dungeons, saw operating profits rise from £1.1m to £1.5m. Mr Hudd said the new sea life centres in Tynemouth and Newquay were trading well, although the hot, dry weather had led to a mixed performance from indoor coastal attractions.

Three new sea life centres are planned, including a 24m aquarium at Brinsford Place in the centre of Birmingham which the company expects will attract 400,000 customers a year. The London Dungeon attracts 550,000 annually.

Vardon committed £21m to its development programme in 1994, 50% of which fell in the first half. The company will end the financial year with borrowings of £5.5m and gearing of 16 per cent.

An interim dividend of 3.75p (0.3p) will be paid.

Earnings per share rose from 0.7p to 1.5p.

Savoy said on Tuesday that

• Sir Ewan Ferguson would replace Sir Anthony Tuke as chairman at the end of the year. It said Mr Martin Radcliffe, a Savoy director, would be acting managing director in place of Mr Giles Shepherd, who resigned on Monday. Savoy has approached Mr Ramon Pajares, general manager of London's Four Seasons hotel, to fill the position.

The group - whose hotels include the Savoy, Claridge's, the Connaught and the Berkeley - said business had been boosted by recovery in both the US and the UK. Operating costs had increased, however, partly because of rising pension insurance expenses.

Savoy said on Tuesday that

• Savoy said Mr Radcliffe, Mr

Suffering a saturated market

Neil Buckley looks at the tough conditions facing the DIY retailers

An increase in operating profits from £41.8m to £44.5m at B&Q, the UK's largest DIY chain, was one of the few bright spots in Tuesday's results from Kingfisher group. Elsewhere, however, there is little joy among DIY retailers.

The fierce discounting battles that broke out in 1992 after the slump in the housing market are over. B&Q moved last year from "high-low" pricing towards an everyday low pricing strategy, bringing it on and the weekends when DIY operators battled to outdo one another on special offers.

But conditions remain tough. Little market growth is forecast, and analysts agree there is too much capacity - with more being added as operators such as Wickes, Great Mills and Sainsbury's Homebase step up expansion.

Little capacity is likely to be taken out. Do It All, the loss-making joint venture between Boots and WH Smith, did sell 100 stores this year - reducing the chain to 140 - but 10 of those went to Focus, a privately-owned DIY chain preparing for flotation.

On the horizon is another threat: Home Depot, the US "category killer" which sells a vast range from giant stores at low prices, is planning to expand into Europe. It has hired Mr Jim Hodkinson, former managing director of B&Q, to seek out opportunities.

The outlook is very different from a decade ago. In the 1980s, DIY operators, like the big food retailers, enjoyed the double whammy of rapid expansion



and ever-increasing gross profit margins.

The number of DIY superstores almost doubled from 500 to 1,000 between 1985 and 1990, according to Verdict, the retail research group. At the same time, according to the Central Statistical Office's Retailing Inquiry, DIY retailers' gross margin increased from 30 per cent to 34.5 per cent.

But, again like the big operators, DIY retailers ran into saturation problems just as the growth in the market slowed.

To prosper in the new environment, DIY operators are seeking ways of being distinctive, often choosing to specialise in the "soft" end of the market - decorative and gardening products - or the "hard" end - hardware, tools and construction products.

B&Q aims to be a broad-based retailer, and is adopting a "twin-track" expansion approach.

It has sought to pre-empt the arrival of Home Depot by launching a lookalike format, originally called Depot but now known as B&Q Warehouse.

B&Q has 14 Warehouse stores of 80,000 to 100,000 sq ft, and plans at least 50. Mr Alan Smith, Kingfisher chairman, said this week the two newest Warehouse stores are already on track to achieve sales of between £14m and £15m in their first year.

At the same time it is refurbishing its existing 40,000 sq ft "super-centre" based on a successful format at Fareham, Hampshire.

Analysts' favourite stock in the sector is Wickes, which, like B&Q Warehouse, is targeted partly at trade customers. Wickes also took advan-

Sinclair and Mrs Jane Thorne, an assistant to Mr Radcliffe, had resigned as trustees of shareholding trusts. They no longer have non-beneficial interests in the shares held by these trusts. This does not affect the overall ownership of the group.

Turnover for the six months increased by 13 per cent to £62.3m (£37.8m). There was an operating profit of £1.13m (£1.1m loss).

Earnings per A share were 0.375p (0.3p losses). Earnings per B share were 0.8p (0.8p losses).

The A shares fall 12p to close at 98p.

Powergen buy-back

By Alison Smith

Powergen has repurchased 2.5m of its own shares for cancellation, bringing the total spent over the last month on buy-backs by the privatised power generator to more than £27m.

Several of the electricity companies have been buying back their own shares in recent weeks.

The buy-back was achieved at a price of 57.5p per share and leaves Powergen with 0.6 per cent of its share capital for cancellation.

The company has the power to purchase up to 10 per cent of its shares.

Credit Lyonnais withdraws from UK personal banking

By Alison Smith

Credit Lyonnais, the state-controlled French banking group, is to withdraw from personal banking in the UK and will close half its regional corporate banking centres in a refocusing of its activities.

The number of staff in the UK is expected to fall by about 60 to around 400, some but not all of these will be compulsory redundancies.

The group expects to close its personal banking branches to within six months and will aim to help its few thousand UK personal banking customers

find alternative facilities.

Mr Bernard Darmayan, UK general manager, said the number of personal customers was too low to justify the investment that was required.

Regional corporate banking centres at Bristol, Cambridge, Newcastle, Nottingham and Southampton would be closed by the end of the year, he said, but this would be offset by investment in information technology at the remaining five centres, enabling them to provide better services and to cover the areas previously dealt with by the wider network.

Glaxo has confirmed that it intends to apply this year for a licence to sell its best-selling drug Zantac as a medicine which can be bought over the counter without a prescription.

In a formal statement of research and development, the company said it would seek approval for two more versions of its ulcer drug Zantac. One is a version of the drug which kills bacteria that are thought to contribute to or even trigger ulcers.

These steps are likely to be important in the attempt to maintain Zantac sales at the £2.5m it recorded last year.

Three more applications, all new ways to administer inhaled asthma drugs, will also be confirmed.

Several, however, have been dropped since last November, including an anti-herpes compound. Development of GR 7442, a potential follow-on to Glaxo's successful Zofran anti-nausea drug, has also been discontinued.

Fidelity launches third investment trust

By Bethan Hutton

Fidelity is to launch its third investment trust, a UK special situations fund to be run in parallel with the group's existing special situations unit trust.

Fidelity Special Values will be managed by a team led by Mr Anthony Bolton, the respected manager who has been responsible for the special situations unit trust since its launch in 1979.

It ranks second of 54 funds in the UK equity growth sector over 10 years, and fourth of 120 over three years, but 54th of 116 over five years (source: Micropal).

The investment strategy for both funds is based on a contrarian approach, concentrating on individual companies rather than economic factors. Fidelity's team of UK analysts looks for companies with recovery or growth potential not fully priced into the shares, under-researched and under-valued companies, takeovers, candidates, restructurings and so on.

The fund will be at least 80 per cent invested in the UK, with small amounts elsewhere in Europe and the US.

Fidelity has a programme of launching investment trusts based on its most successful unit trusts, to broaden the appeal of its range to investors.

The new trust will be launched with a placing and public offer, due to open on October 19. Ordinary shares at 100p will have warrants attached in a one-to-five ratio, and the trust will be geared by the issue of equity index-linked loan stock, up to the value of 25 per cent of the net proceeds of the share issue.

Waterglade management lose control

By Alison Smith

The management of Waterglade International has lost its battle for control of the company's property development operation.

It is to be replaced by the opposing shareholder group, led by Singaporean Winston Ng, writes Simon Davies.

The new directors have undertaken to pursue a recapitalisation, which has become an urgent need for a company with negative shareholders' funds of £10m. An immediate rights issue of 25m is expected.

Mr David Cunningham, chairman, and the three other directors have resigned, and compensation for loss of office has been agreed.

Mr Selwyn Midgen, Mr Anthony Midgen, Mr John Darby and Mr Derek Hayes will join Mr Ng on the new board.

For the period from September 15, 1994 to March 15, 1995 the Notes will carry an interest rate of 6.2575% per annum with an intermediate of £17,252,000 per £1,000,000 and £17,252,

Puzzle for the economists over a 'peace dividend' – See Page II of this survey

FINANCIAL TIMES SURVEY

NORTHERN IRELAND

Thursday September 15 1994

North/South trade: the barriers start to fall – see Page III



A child plays ball alongside a new wall slogan in north Belfast.



Young ladies turn to watch a British soldier on patrol in the Falls Road, west Belfast.



A Sinn Fein supporter demonstrates outside Belfast's city hall.

Picture: Crispin Rodwell, Reuter

Sir John Davies, the attorney general for Ireland under the first Queen Elizabeth, described Ulster in 1606 as "the most rude and unreformed part of Ireland, and the seat and nest of the last great rebellion."

Catholic Irish lords had constantly "champed at the bit" of British rule, but it was 215 years after the attorney general wrote those words before the problem of seemingly perpetual Irish revolt was partially resolved by partitioning the island in 1921.

A better-known former UK attorney general, and currently the Northern Ireland secretary of state, Sir Patrick Mayhew, has had the delicate task of presiding over the ending of another rebellion, that of the Provisional IRA, which for the past 25 years has created havoc in Ulster and on the British mainland in its efforts to force a total British withdrawal from the province.

The IRA's cessation of hostilities, announced two weeks ago, has so far held, and a growing number of political leaders both domestically and abroad are coming to believe that this may really be the permanent cessation of violence demanded by the two governments in last December's Downing Street declaration,

and which will pave the way for the inclusion of Sinn Fein, the political wing of the IRA, into round-table talks.

Sir Patrick stresses that it is the "intention" that the ceasefire be permanent which is important and that this must be matched by deeds and words before the British government can finally accept the IRA's *bona fides* – "the reason is that this government cannot be seen to sit and down and talk to people who may be reserving an option of going back to their former violence if they don't get what they want at the table... I have to maintain the confidence of people in Northern Ireland."

That confidence is showing signs of growing. In Dublin, the Irish prime minister met Mr Gerry Adams, the Sinn Fein president last week, to prepare the ground for Sinn Fein's inclusion in a Dublin-based Forum for Peace and Reconciliation, which will bring together the political parties in the Republic with Sinn Fein, the nationalist Social Democratic Labour Party (SDLP) and the moderate Alliance party from Northern

Ireland. The North's other unionist parties have so far refused to join the Forum but some leaders of the Ulster Unionist Party (UUP) have indicated that they believe the ceasefire to be permanent and, once convinced of that, have said that they will eventually sit at the table with Sinn Fein.

At the international level, the US government has thrown its weight behind the peace process and held out a promise of economic assistance to Northern Ireland, as has the European Commission.

Whether the Loyalist paramilitaries will also lay down their weapons – a key factor in the peace equation – remains to be resolved, and a small bomb planted at a Dublin railway station last Monday does not look encouraging. But community workers in Protestant working class areas of Belfast are convinced that a Loyalist ceasefire will be declared within the next few weeks. If so, the momentum towards peace would become increasingly unstoppable.

The next hurdle in the peace process, once a ceasefire is established on both sides of the community, will be to convince all the political parties to sit down and negotiate new constitutional arrangements for Northern Ireland. A focus for these talks is being drafted by the British and Irish governments in the form of a "framework document," which will address such issues as reform of the Republic's territorial claim to Northern Ireland; a new elected assembly for the province; and cross-border administrative structures which will encourage greater economic and political co-operation between the Republic and Northern Ireland.

No-one is under the illusion that these talks will be anything other than difficult. The UUP and the hard-line Democratic Unionist Party (DUP) see in the cross-border structures a potential trap which will lead to eventual joint sovereignty, and a back-door approach to a united Ireland. Mr Jim Gilmore, who sits on the national executive of Sinn Fein, said his party would welcome new cross-party structures – "if they are free-standing and can freely develop and there is no ceiling built into their development, we would see them as a process towards national reconciliation."

Unionist fears can, it is hoped, be dealt with, by having the executive powers of the new bodies jointly delegated to them by parliaments in both the Republic and Northern Ireland, rather than by the two governments, according to Sir Patrick.

Whether nationalists will accept this, remains to be seen.

Mr Albert Reynolds, the Irish prime minister, said last week that the next battle to come "will be over the framework document." But both governments are convinced that with a willingness to compromise by both nationalists and unionists, facilitated by a climate of peace, then agreement is achievable. Sir Patrick says

"there has got to be an outcome in which nobody can seek to have achieved everything at the end."

So, with the prospect of a lasting peace now firmly on the agenda, if not yet firmly in place, serious thoughts are now being given to the economic implications of peace.

Economists are divided on the issue. There are those who say that Northern Ireland's development agencies such as the Industrial Development Board and the Northern Ireland Tourist Board, will be able to aggressively market the province to foreign investors, no longer having to fight against the negative image created by the troubles.

The announcement last week by Hilton International, that it is to build a 187-bedroom hotel as a centrepiece to the new Lagan-side development in Belfast will be an encouragement to others thinking of capitalising on what is expected to be a tourist boom in the province in the years ahead.

Seagate, the US electronics manufacturer, last year established a high-tech manufacturing facility in Londonderry, without waiting for a peace settlement, attracted by the large pool of skilled labour in the province. The textile industry continues to grow and now provides around a quarter of all manufacturing employment. First-class infrastructure in road, rail, telecoms, ports and airports adds to the attraction of the province.

The optimists therefore say that peace will bring foreign investment on a similar scale to that achieved by Scotland, Wales and the Irish Republic.

Whilst the economic benefit of peace is not in dispute, more cautious analysts point to the downside. As many as 20,000 people are estimated to be employed in the security forces and related occupations such as the security guards seen at the entrance of almost every large store and office block across the province. Many of these could be expected to lose their jobs. The short-term effect could be a rise in the unemployment level of 36,000 or 3.1 per cent of the workforce, already the highest in

the UK. Sir Patrick acknowledges the problem – "there is going to be a need for gradual adjustments and it is true that a lot of jobs are linked to the emergency."

He says that up to 80 per cent of the annual £1bn government spending on security is related to the emergency.

The potential loss to the economy in security-related spending by both the public and private sectors could therefore exceed £1bn in the event of a lasting peace, equivalent to around 10 per cent of the province's GDP. Business leaders can thus be expected to exert intense pressure upon both governments to provide extra resources for Northern Ireland, whether from their own exchequers, or by enlisting support from Washington and Brussels.

As Michael Smyth, an economist at the University of Ulster, says: "The danger is that the government could pull the rug out from under the private sector, just as they have a chance of taking off."

After decades, indeed centuries, of conflict and rebellion in Northern Ireland, the real challenge thus facing Ulster's politicians as the 21st century approaches is no longer that of winning the war, but rather winning the peace.

You'll find parts of the world all over Northern Ireland.

Daewoo Electronics Co. Ltd.
Autrim

Fruit of the Loom Inc.
Londonderry

Seagate Technology Inc.
Londonderry

Many factors attract companies from around the world to locate in Northern Ireland:

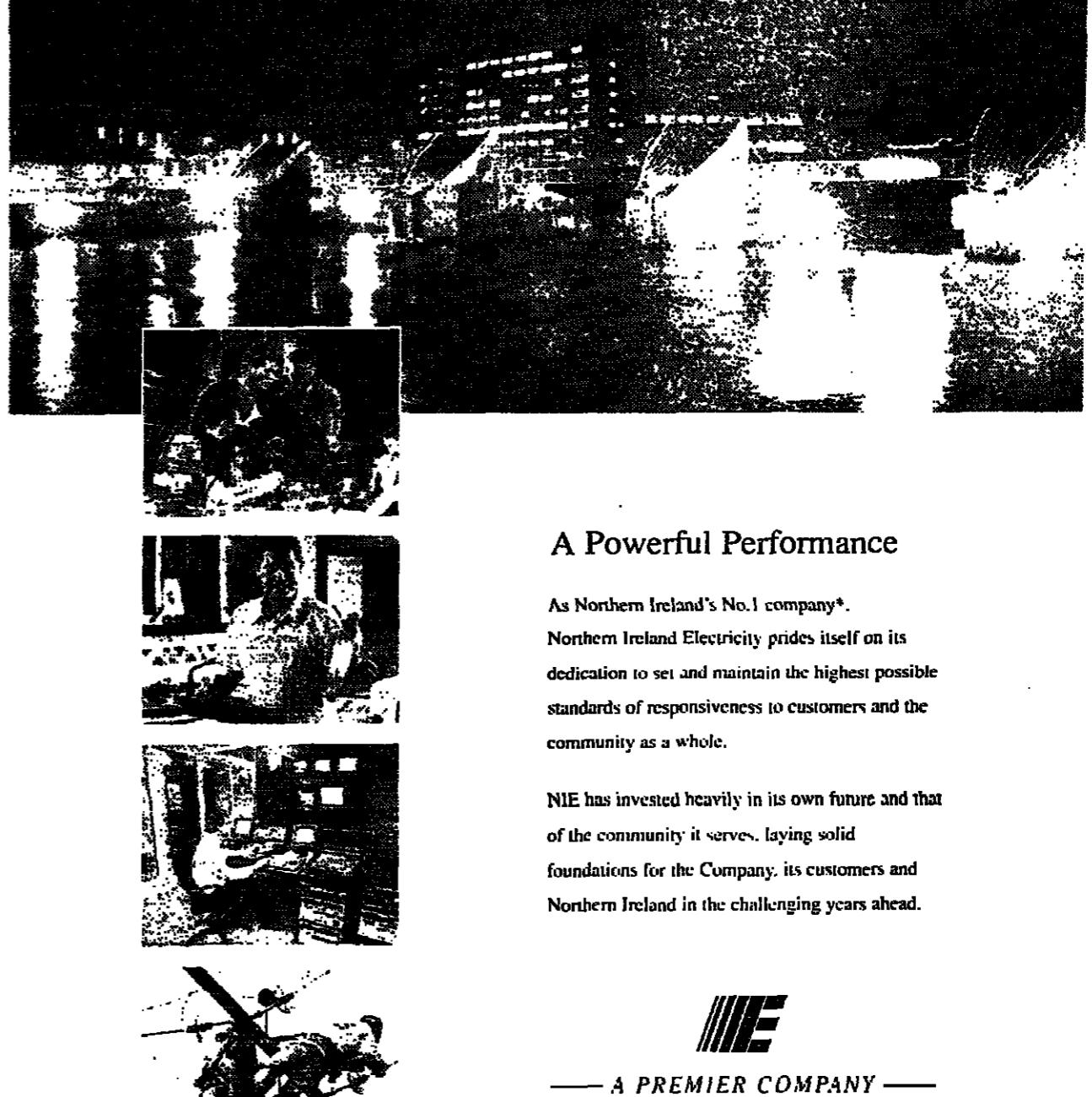
- Highly productive workforce
- Available skills in advanced technology
- Access to world markets
- Attractive investment incentives
- Best labour relations in the UK
- State-of-the-art infrastructure and telecommunications.

If you are interested in finding out more about Northern Ireland's success story, we're interested in meeting you.

IDB
Northern Ireland

Industrial Development Board for Northern Ireland,
IDB House, 64 Chichester Street, Belfast BT1 4JX Tel: (0232) 233233 Fax: (0232) 231328

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As Northern Ireland's No.1 company*. Northern Ireland Electricity prides itself on its dedication to set and maintain the highest possible standards of responsiveness to customers and the community as a whole.

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* Ulster Business "Ulster's Top 100 Companies - 1994"

NORTHERN IRELAND II

The Northern Irish economy is recovering faster than the British economy as a whole, reports JOHN McMANUS

It is probably not surprising that peace should be as divisive amongst Northern Ireland's economists as 25 years of violence has been amongst the population at large. The "issue" in Northern Irish economic circles at the moment is the impact of a prolonged, hopefully indefinite, period of peace. It is best summed up by the question: "Is there going to be a peace dividend or a peace deficit?"

There are some facts about the situation accepted by both sides in the debate, including the fact that the Northern Irish economy has been buffered from the worst of the recent recession by a £1bn to £2bn a year subsidy from the British Exchequer.

It is also accepted that the Northern Irish economy is recovering faster than the British economy as a whole. This is particularly obvious in key measures such as Northern Irish production output and manufacturing industries output, which, on an indexed basis, have been ahead of Britain since mid-1990.

Although unemployment in Northern Ireland remains the highest in Britain, at just under 13 per cent, employment has remained stable since 1980, despite a significant decline in Britain.

In fact, looking back, it is debatable whether Northern Ireland had a recession at all. If you take a decline in GDP over two successive quarters as a definition of a recession, then it definitely did not have one. However, what economists do not agree on is that peace will benefit the economy and support the recovery.

Dr Graham Gudgin of the



Visitors in Belfast: long-term peace would boost the tourism sector

Northern Ireland Economic Research Centre is one of the doubters - "security-related expenditure accounts for about one third of the £4bn annual subvention... there is a huge question mark as to whether the north would be allowed to keep that money if peace broke out."

The possible benefits to the Northern Irish economy of

increased tourism and other aspects of peace, would not outweigh the effect of losing the subsidy, he believes.

Up to 20,000 well-paid jobs in the security forces and related areas could be lost, predicts Dr Gudgin. The type of jobs that are supposed to replace them, particularly in areas such as tourism, will be relatively low-paid, he points out.

A similar stance has been taken by the Confederation of

British Industry in Northern Ireland, which estimates that job growth through inward investment will quadruple from about 500 per year to 2,000 over a two-to-three year period, while perhaps another 70,000 jobs will be created in the tourism industry.

One economist who is very positive about the impact of peace is Mr Douglas Hamilton,

who works with the Government policy advisory group the Northern Ireland Economic Council.

Mr Hamilton believes there would be a tremendous boost to industry from operating in an environment not tempered by a political climate of violence and conflict.

"The troubles did not really lead to companies pulling out, but to a situation where they do not operate under normal conditions," he claims.

Mr Hamilton also believes that there would be pressure on the British government to let the Northern Irish economy down gently, by phasing out the payment gradually and creating a reconstruction or redevelopment fund.

Although the British government has not committed itself to such a fund, there have already been suggestions of increased aid from the United States and the European Union.

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NORTHERN IRELAND III

Trade links are expected to be substantially improved over the next five years as they are a priority in the Republic's £87bn National Development Plan, reports JOHN McMANUS

Trade between Northern Ireland and its nearest neighbour, the Republic of Ireland, is abnormally low – and skewed heavily in favour of the Republic.

Northern Ireland's exports to the Republic represent just under eight per cent of the total. Goods and services flowing the other way represent about six per cent of the Republic's total exports.

The north's main exports to the Republic are live animals and food products, including beverages, which accounted for around 40 per cent of the £265m exported in 1992. Other leading exports include fertiliser, textiles and clothing.

Food products and live animals account for around 46 per cent of Northern Ireland's imports from the Republic, which were \$25m in 1992. Manufactured goods, including chemicals, industrial machinery and road vehicles, accounted for 47 per cent of imports.

The reasons for the low level of trade are both infrastructural and historical. The antipathy of certain parts of the

Northern Irish business community to trading with the Republic, and the apprehension of companies in the Republic about trading in Northern Ireland, are widely acknowledged, but unquantifiable.

Current political developments may go a long way towards breaking down these invisible trade barriers and complement the efforts made in recent years to overcome the tangible, infrastructural barriers.

Over the last three years the two leading business organisations in Ireland, the Confederation of British Industry in Northern Ireland, and the Irish Business and Employers Confederation (Ibec) in the Republic, have undertaken a number of joint initiatives aimed at boosting cross border trade.

Between them, Ibec and the CBI represent 4,000 companies and around 90 per cent of manufacturing jobs in Ireland.

The advent of the single market in 1992 is seen by many as the catalyst that led the two organisations to look at ways of overcoming obstacles to trade.

The single market swept away the biggest of the physical obstacles: delays at the border for customs and

security checks could at one time add up to five hours to the three-hour journey between Belfast and Dublin.

The CBI and Ibec established a joint council in 1991, which drew up a three year North-South market development programme.

The programme set out to address what the joint council perceived to be the four biggest obstacles to trade, according to Mr William Poole, the Confederation of British Industry's director of business development for Ireland.

The biggest problem, according to Mr Poole, was the lack of available information, in both the Republic and Northern Ireland, about opportunities on the other side of the border.

The second main obstacle was perceived to be the poor state of road and rail links between the two parts of Ireland.

The two other big problems identified by the joint council were the sort that would be associated with any export market: the risk of adverse currency movements and the difficulties of pursuing payment in a different jurisdiction.

More than 60 sales leads and £390,000 worth of business were generated by the software

programme which took part in the programme, he adds.

The joint council is now completing a second programme, which will run for five years and look particularly at the possibility of increasing cross-border trade by small businesses, which are seen as vital creators of new jobs. Northern Ireland's small business sector represents the province's best opportunity for job creation and economic expansion.

"In marketing terms, it

missioned management consultants to produce a study on the potential for the development of an economic corridor between Dublin and Belfast, and this is due for publication shortly.

Such a scheme has been mooted by businessmen for many years, with estimates of the number of jobs it could create ranging from 7,000 to 70,000. The report is expected to highlight once again problems in the area of infrastructural links between Northern Ireland and the Republic.

The links, however, are expected to be substantially improved over the next five years as they are a priority in the Republic's £87bn National Development Plan for spending the next tranches of European Union structural funds.

The report is also expected to show that "what is really lacking is a normal relationship between companies because of a lack of interaction," explains Mr Geoff MacKee, the director of Ibec's North-South Business Development Programme.

The development of a corridor would give Northern Ireland companies better access to the island's largest concentration of consumers, in Dublin and its surrounding towns. Such a corridor might go some way to help redress Northern Ireland's trade deficit, which is a relatively recent development. In 1981, Northern Ireland actually enjoyed a small, £2m trade surplus with the Republic.

Ulster companies are leading suppliers to British retail chains, reports John McManus

The textile base remains strong

"Our competitive edge is better design, a very close relationship with the customer, and a quick response time," explains Mr Sean O'Dwyer, the managing director of Desmonds, a supplier to Marks and Spencer, which employs 2,700 people, making nightwear and other clothing. Northern Ireland-based suppliers, such as Desmonds, offer British retailers the facility to drop unsuccessful lines in mid-season and increase production of successful ones, so that they avoid being left with surplus stock at the end of the season.

Out of around 100,000 manufacturing jobs in Northern Ireland, around 26,000 are in the textiles industry, of which garment manufacture accounts for around 16,000. An additional 10,000 people are employed indirectly by the textile industry.

The strength of Northern Ireland's garment industry is due to a combination of factors: the historically strong textile industry base; the growth of the British chain stores; and the high level of government support available since the start of the troubles 25 years ago. The skilled workforce and infrastructure developed by the linen industry allowed Northern Ireland-based garment manufacturers to start supplying British retail chains, and to grow with them as they came to dominate the clothing market in Britain.

"Chain stores account for 60 per cent of clothing sales in Britain and provide the volume demand required by manufacturers to achieve economies of scale," explains Mr Bruce Robinson, the deputy chief executive of Northern Ireland's development agency, the Industrial Development Board (IDB).

The generous level of capital grants available in Northern Ireland over the last two decades – up to 40 per cent more than in the UK – has meant that local companies have been able to equip themselves with the expensive machinery needed to supply products of the quality required by chain stores.

Northern Ireland's garment manufacturers would prefer to explain their success in terms of increased competitiveness.

plans to open a new hosiery knitting factory in Strabane this year and hopes to employ over 1,500 people in Northern Ireland by the end of 1995. The garment industry's strength is not reflected in other parts of the industry, however – particularly carpet-making. Last month, textile group Richards announced it was closing its carpet-making subsidiary in Bangor, Spence Bryson, with the loss of 175 jobs. The closure was blamed on fierce competition in the UK carpet market.

The performance of the carpet industry is linked to activity at retail level and the number of new housing starts," according to Mr Desmond Morgan of the Northern Ireland Textile Association – "these have been very slow to pick up and matters have not been helped by the entry into the UK market of the US carpet giant, Shaw International."

Textile yarns and fabric are a very important sector of the industry in Northern Ireland and are set to become more so with the decision of Taiwanese group, Hualon, to set up near Belfast. Although questions have been raised about the appropriateness of the decision to give £51m in grants to Hualon, the 1,800 jobs which the project will create in Belfast are very welcome.

The fully integrated textile plant will dye, finish, weave and spin nylon, cotton and polyester-cotton fabrics. Other textile companies such as cotton spinners and weavers, Fruit of the Loom and Courtaulds Textiles, form the second largest sector in the textile industry in employment terms, accounting for the bulk of non-garment employment.

The linen industry remains a significant employer, although its underwent rationalisation in the mid-1980s and 1990s. Northern Irish linen manufacturers, who produce about 20 per cent of Europe's linen, have been forced to move away from their traditional market, which was household linens. However, the return to fashion of natural fabrics, has given linen spinners a new lease of life in export markets.

The outlook for the garment sector is better now than it was ten years ago, believes Mr Terry McCartney, the chief executive of Charnos, which has extensive textiles interest in Northern Ireland through its Adria subsidiary. "We have seen the industry being weakened by cheap imports, but I think that is changing and we are winning back market share through the quality of our service and design," he explains. Adria, which produces branded and own-brand hosiery and lingerie for UK retailers has increased employment by 250 this year, opening a £5.4m lingerie factory in Derry. The company

Expansion plans

The family-owned firm started supplying Marks and Spencer 40 years ago, and now sells the chain store about £10m worth of clothing a year.

"We're pretty confident that we can increase output. By 1998 we plan to have increased volume by 40 per cent," comments Mr O'Dwyer. Desmonds plans to invest about £5m under the expansion plan creating a further 600 jobs.

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is a popular perception of Northern Ireland, the two huge gantry cranes at the Harland and Wolff shipyard in Belfast loom as large as an Ulster fried breakfast or the booming voice of the Rev Ian Paisley.

But while neither of the latter are likely to diminish in volume or disappear from the Northern Ireland scene in the coming few years, the same could not be said with total certainty of the shipyard.

The Harland and Wolff cranes, once the most potent symbol of Northern Ireland's manufacturing industry, may become redundant by the end of next year if the shipyard is unable to win new orders in the face of increasingly stiff international competition.

The hull of the last order on the yard's books – a Capesize bulk carrier – is taking shape on the floor of the main building dock, one of the largest building docks in the world, designed to accommodate vessels up to 1.2m tons dwt, twice the size of the largest ship ever built.

The last ship is a relatively modest 162,000 dwt Capesize bulk carrier, but is one of a new generation of bulk carriers and tankers featuring enhanced structural and safety features in which H&W now specialises.

Mr Per Neilsen, chief execu-

tive of the Harland and Wolff group, estimates that as many as 800 'newbuildings' of ships over 100,000 tons dwt will be required over the next five to six years – the category in which H&W specialises.

Some 25m tons of bulk carriers and tankers are now on order around the world. The H&W yard has a capacity to build between four and six such ships per year, so the Belfast builder would be aiming to win only around 5 per cent of all orders worldwide, not – it would seem – an impossible task.

Mr Neilsen points out that while that world shipyard capacity is growing and that there have been big productivity increases in existing yards, "there is more than enough capacity to meet the demand for renewing the fleet."

The problem for H&W, which reported an operating loss of £10.1m for 1993, is that direct and indirect subsidies paid to competing shipbuilders overseas "including several countries in the EC" is making it impossible for the Belfast yard to compete on price,

despite large productivity increases that have been achieved in recent years. "We can compete on cost with the best shipbuilders around. We have the cheapest overheads compared to similar shipyards," he claims.

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Since the yard was privatised in 1989, productivity has doubled. The number of man-

hours required to produce a Capesize ship has been cut in half he said, and overall workforce numbers in the shipbuilding division have been cut from 2,850 to 1,400.

"We've done everything that has been asked of us through the privatisation," he says.

Restrictive work practices have been eliminated, flexible work hours have been introduced, labour costs have been sharply reduced, and great emphasis is laid on quality control – "the employees have been prepared to take up the

challenge" he says. A technical co-operation programme has been in operation for several years with Kawasaki Industries in Japan, and the management style at the yard is now largely modelled on the Japanese system.

There has been sympathy expressed in Whitehall, he says, but so far this has not resulted in action: "If the government isn't prepared to listen to us, then clearly we will have to go in another direction and reinforce our support for a 'no-subsidy' policy."

"I used to be an optimist. But I feel it is going to be difficult to compete commercially if we are not playing on a level field with our competitors. It is going to be extremely difficult to be in business in the longer term."

It is a sombre message coming from one of Northern Ireland's oldest and most famous industries. And hardly one likely to bring cheer to those problem areas of Belfast where unemployment in some neighbourhoods such as the Lower Falls Road or Sandy Row is higher than 60 per cent.

Tim Coone

A thousand cars a day pass through Larne port

Busy highway to Europe

For Ireland's food industry and the growing number of companies manufacturing just-in-time techniques that have chosen either the province or the Republic to locate their factories to supply the European market, Larne port is a vital link between them and their customers, some of which are located in the heart of Europe.

Mr Denis Galway, the port's director and general manager, said that the frequency of sailings from the port and the short sea crossings enabled a road haulier to have a 40-ft trailer load "in Paris within 24 hours and well into Germany in 48 hours."

Four ro-ro routes now operate between Larne and the British mainland, offering each way daily, evenly staggered throughout the day and night. Four ro-ro jetties, three with double ramps and the fourth recently having under-

gone a £7m improvement, ensure a rapid turnaround for the ferries and little delay for the hauliers. Individual loads of up to 180 tonnes can be accommodated.

Half of the cargo handled through the port is perishable, such as meat and dairy products and fresh vegetables – speed delivery for these is essential. With the frequency of sailings from here we can ensure that these products can leave Larne in the evening and be on supermarket shelves in Britain first thing in the morning," says Mr Galway.

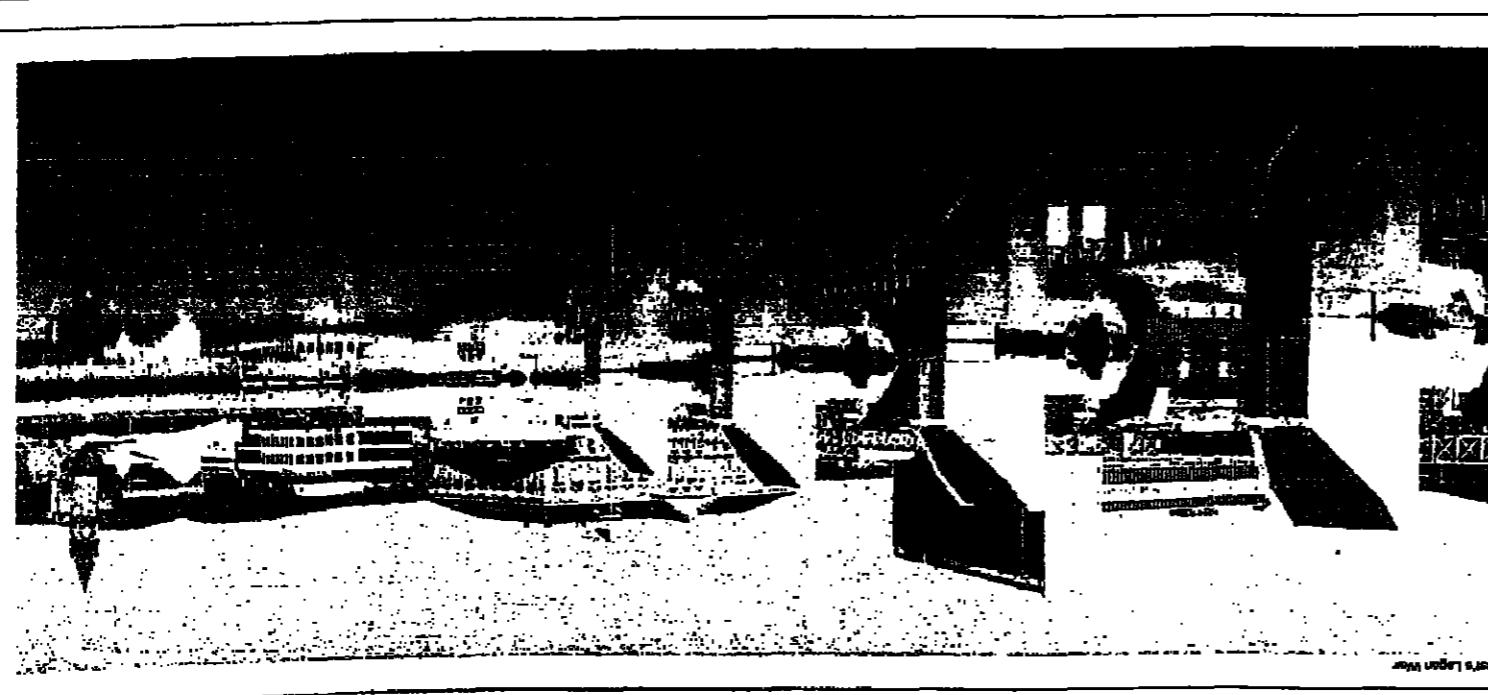
Fruit of the Loom, the US clothing manufacturer, supplies the European market from factories located on both sides of the Irish border, using Larne as its main port to Britain and beyond. Mr Tony O'Reilly, the chairman of the Heinz food corporation, has cited Larne port as one of the reasons for locating a new pizza-topping factory for

room has been provided for them at the passenger terminal.

Adjacent to the port, and owned by it, a 100-acre site is now being offered in lots of up to 10 acres for development which Mr Galway believes will be attractive to manufacturers and wholesale distributors looking for a location from which to supply their markets efficiently.

A new era of competition for Larne began recently, though, with the appearance of new shipping on the Irish Sea. The Seacat service to Belfast, with its fast crossing times, has been able to take around 15 per cent of the tourist traffic into the province in the past two years. In 1993, Stena Sealink also opened up a new Seacat service from Holyhead to Dun Laoghaire (near Dublin), with an Irish Sea crossing time of only one and half hours (compared with two and a half hours from Larne to Stranraer).

Mr Galway acknowledges the threat but he says: "We are not afraid of competition. We believe we can compete on price, and the evidence shows that ferry operators here have sustained their market share."



Appearances can be deceptive. Belfast reflects an excellent opportunity.

So you think you know all there is to know about Belfast? Think again. Take a closer look and you'll discover a city which offers one of the best investment opportunities in the United Kingdom.

Laganside is a unique commercial and residential development in an attractive environment on the banks of the River Lagan. While at the heart of the city all of this is still within three miles of the City Airport and the SeaCat terminal yet any employer will find an abundant supply of skilled staff.

Combine these features with low operating costs and it's not hard to see why the potential of this vibrant location has already been recognised by organisations such as First Trust Bank and BDO Binder Hamlyn.

So take a closer look at Belfast and discover Laganside. It could turn your views upside-down.

LAGANSIDE

For further information contact: The Marketing Team Laganside Corporation, Clarendon Building, 15 Clarendon Road, Belfast, BT1 3BG. Telephone 0232 328507.

COMMODITIES AND AGRICULTURE

UK set to maintain cereal crop yields

By Deborah Hargreaves

The UK wheat crop is expected to rise by 3 per cent this year in an overall cereals harvest little changed from last year at 19.6m tonnes, according to preliminary estimates by the National Farmers' Union.

The French wheat crop is expected to be 4 per cent higher than last year, but German barley yields could be 10 per cent lower because of drought, the NFU anticipates.

The NFU points out that, although British cereals output is likely to be little changed from last year's 19.5m tonnes, the composition of the crop is expected to change significantly.

Wheat production is expec-

ted to rise but barley output is forecast to fall.

This reflects price expectations made by farmers when planting their crops. Bad weather caused wide variations in crop yields, but affected both wheat and barley crops in a similar way.

Crop yields were broadly higher in the south and south east and lower in the east Midlands and East Anglia, where heavy rain delayed spring planting.

The NFU also pointed to much higher variations in yield within each region than had been recorded in previous years.

The area sown with wheat increased by 4 per cent for the 1994 harvest, but wheat yields

fell slightly from 7.3 tonnes per hectare to 7.2 tonnes per hectare, producing a crop of 13.26m tonnes.

Barley planting continued its downward trend with the winter barley area falling by 3.5 per cent in England and the spring barley planting dropping by 9.6 per cent.

Oilseed rape sowings are estimated to have risen by 3.8 per cent but yields in England and Wales were down by 6 per cent, leading to production remaining unchanged at around 1m tonnes.

In France, the area sown with cereals declined by about 3 per cent overall, but most of the drop was in the maize areas. Wheat planting increased by 2 per cent.

Farmers call for cut in set-aside

By Deborah Hargreaves

The European farmers' organization, Copa, yesterday called for a reduction in the amount of cereals and oilseed land set aside or left to lie fallow in the 1994-95 growing season under a European Union scheme.

French and British farm unions have also called for substantial cuts in set-aside. The UK National Farmers' Union called on European Union agriculture ministers to rethink the scheme at next week's council meeting in Brussels.

Poor weather and current set-aside obligations are expected to cut this year's EU grain harvest to between 155m and 160m tonnes compared with 165m tonnes last year. The average harvest before the 1992 Common Agricultural Policy reforms was 185m tonnes.

Copa said it urgently requested a reduction in the set-aside "which will not affect the good functioning of the market".

Mr McMahon said it would take about three years to bring the two million hectares back into production. Although the industry could look forward to steady and unexciting growth in demand for platinum, "this is a commodity-type industry now and there are no reserves that can be brought into production to stop us getting too fat and happy."

In this context, the price of BHP, Australia's biggest group, to proceed with a platinum mine in Zimbabwe said this could mean European customers having to import unless the set-aside is reduced.

Sir David is also urging ministers to take the matter up as quickly as possible to allow time for farmers to adjust planting patterns this autumn.

Platinum reached a 3½-year peak of \$480 (2277) an ounce in July. Last night the price closed in London at \$417.50.

Shrinking surplus puts platinum level

By Kenneth Gooding, Mining Correspondent

The platinum market is likely to be in balance this year for the first time since 1989, according to Mr Michael McMahon, chairman of Impala Platinum, the world's second biggest producer.

Persistent supply surpluses in the past four years have depressed prices. Now Impala is forecasting that last year's surplus of 365,000 troy oz will fall to 80,000 oz.

Mr McMahon suggested yesterday that even this potential surplus might be eroded because car companies – the biggest users of platinum – had been re-stocking at a greater rate than Impala had anticipated.

Over-supply hit the market after South African producers increased capacity following a surge in prices to nearly \$550 an ounce in the late 1980s.

Impala's own expansion

plans have been substantially reduced and two platinum mines in which it has an interest – Kennedy's Vale and Crocodile River – have been mothballed, while development of the Meekings project has been suspended.

Mr McMahon said it would take about three years to bring the two million hectares back into production. Although the industry could look forward to steady and unexciting growth in demand for platinum, "this is a commodity-type industry now and there are no reserves that can be brought into production to stop us getting too fat and happy."

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Market Report

Confusion sends coffee tumbling

By Deborah Hargreaves

International coffee prices tumbled by \$153 a tonne yesterday as London traders expressed confusion over Brazil's plan to halt stockpile sales. The November futures contract in London slipped to \$3,940 a tonne.

Brazil halted its weekly auction of the government coffee stockpile when it failed to dampen domestic inflation. Yesterday, influential growers' groups called on the government to restart the auctions, claiming their members would be adversely affected.

International prices were boosted last week when Brazil called a halt to the auctions with the market touching \$4,050 a tonne – close to an 8% year peak. But prices dropped by \$200 a tonne with speculation that the government would resume export sales.

COMMODITIES PRICES

BASE METALS						
LONDON METAL EXCHANGE						
(Prices from Amalgamated Metal Trading)						
M ALUMINUM, 100% purity (\$ per tonne)						
Cash	3 mths					
Close	1557.5-8.5	1562-3				
Previous	1564-5	1568-9				
High/low	1560-2	1560-17/18				
AM Official	1564-5	1568-9				
Kerb close	1567-8	1570-9				
Open int.	269,164					
Total daily turnover	64,020					
M LEAD (\$ per tonne)						
Close	616-5	627-5.5				
Previous	614-5	627-5				
High/low	612-5	626-24				
AM Official	611-2	623-4				
Kerb close	610-1	620-1				
Open int.	10,816					
Total daily turnover	171					
M NICKEL (\$ per tonne)						
Close	6545-65	6645-50				
Previous	6465-75	6565-70				
High/low	6465-75	6565-70				
AM Official	6480-5	6580-6				
Kerb close	6610-5	6710-6				
Open int.	62,860					
Total daily turnover	14,842					
M TIN (\$ per tonne)						
Close	5300-6	5375-80				
Previous	5280-6	5360-70				
High/low	5270-6	5375-80/84				
AM Official	5270-80	5350-6				
Kerb close	5300-6	5375-80				
Open int.	2,200					
Total daily turnover	2,200					
M ZINC, special high grade (\$ per tonne)						
Close	985.5-4.5	1000-7				
Previous	982-3	1005-5-6				
High/low	987	1005-5				
AM Official	977.5-7	1000-0.5				
Kerb close	1000-6	1005-6				
Open int.	9,008					
Total daily turnover	21,203					
M COPPER, grade A 5 per tonne						
Close	2497.5	2510-2				
Previous	2502.4	2518-24/2455				
High/low	2492-3	2507-2				
AM Official	2502-3	2507-2				
Kerb close	2501-2	2507-2				
Open int.	218,125					
Total daily turnover	38,576					
M NICKEL, grade A 5 per tonne						
Close	2497.5	2510-2				
Previous	2502.4	2518-24/2455				
High/low	2492-3	2507-2				
AM Official	2502-3	2507-2				
Kerb close	2501-2	2507-2				
Open int.	218,125					
Total daily turnover	38,576					
M CRUDE OIL, NYMEX (\$/bbl)						
Close	3002-6	3075-80				
Previous	3002-6	3075-80				
High/low	3075-80	3075-80/3100				
AM Official	3070-80	3075-80				
Kerb close	3070-80	3075-80				
Open int.	3,000,000					
Total daily turnover	2,200					
M ZINC, special high grade (\$ per tonne)						
Close	985.5-4.5	1000-7				
Previous	982-3	1005-5-6				
High/low	987	1005-5				
AM Official	977.5-7	1000-0.5				
Kerb close	1000-6	1005-6				
Open int.	9,008					
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Open int.	218,125					
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M CRUDE OIL, NYMEX (\$/bbl)						
Close	3002-6	3075-80				
Previous	3002-6	3075-80				
High/low	3075-80	3075-80/3100				
AM Official	3070-80	3075-80				
Kerb close	3070-80	3075-80				
Open int.	3,000,000					
Total daily turnover	2,200					
M CRUDE OIL, NYMEX (\$/bbl)						
Close	3002-6	3075-80				
Previous	3002-6	3075-80				
High/low	3075-80	3075-80/3100				

FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Adj. Close Price Bid Price Offer Price + or - % Change

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro SS

IMMEDIATE CHARGE: Checks made on site of
accident show that driver was drunk and

that the farmers will severely limit the price set on the most recent variation. The price shown is the latest available before

OFFER PRICE: Also called issue price. The price shown is the latest available before publication and may not be the current dealing price because of an intervening position adjustment or a withdrawal. A foreign edition price is shown in parentheses.

FORWARD PRICING: The letter E denotes price on request, and may refer to forward pricing at any date.

CANCELLATION PRICE: The minimum price. The minimum agreed between the manager and the client.

respective price. The minimum spread between the offer and bid price is determined by a formula laid down by the government. In

actual payment by the government. In practice, most unit trust managers quote a cash equivalent amount. At a result, the bid price is

SCHEME PARTICULARS AND REPORTS: The most recent scheme and reports are available on the website of the scheme manager.

REPORTS: The most recent report and scheme participation can be obtained free of charge from fund managers.

TIME: The time allotted alongside the food _____

Other explanatory notes are contained in the last column of the table.

1100 hours; 1701 to 1400 hours; (4) - 1401 to 1700 hours; (4) - 1701 to midnight. Daily damage estimate are set on the basis of the

Only closing prices are set on the same day as the valuation point; a short period of time may elapse before prices become available.

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MANAGEMENT SERVICES

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MANAGED FUNDS NOTES

Prices are in parco unico (euro, franc, pound and US dollar) denominated in parco, plus 0.50% U.S. dollars. Yield is 0.50% for all bonds. Premiums of certain bonds are subject to a 10% discount. Bonds subject to capital gains tax on assets. In the United States, the Fund is registered under the Securities Act of 1933. Distribution fees of US\$ 1000. A Portfolio premium insurance plan is available. A Single premium insurance is designated as a **UICHT** (Underwriting for Collective Investment in Transferable Securities). A Other price includes all expenses except agent's commission. \diamond Premiums paid by a client. \diamond SG Germany products. \diamond SG Germany products. \diamond SG Germany products. \diamond SG Germany products. \diamond Only applicable to certain bonds. \diamond With certain bonds, annual guaranteed rates of 50% increased, and on cashed-out.

(*) Funds not SGD recognized. The regulatory authorities in these funds are: Germany: Financial Services Commission; Ireland: Central Bank of Ireland; Isle of Man: Financial Services Commission; Jersey: Financial Services Department; Luxembourg: Institut Financier Luxembourgeois.

MARKETS REPORT

Gains for Swiss franc

Continued uncertainty about the outcome of next month's German national elections yesterday helped the Swiss franc to its strongest level since October 1981, writes Philip Gaultier.

Investors seeking exposure to core European currencies, but wanting to lighten their D-Mark holdings, drove the franc to a London close of SF10.83, from SF10.84 on Tuesday, against the D-Mark.

Elsewhere in Europe, though, the D-Mark was generally firmer on declining expectations of another round of rate cuts. Against the escudo it finished at Es101.9, while against the peseta it closed at Pts103.12, from Pts103.2.

Despite firmer than expected retail sales figures, and rumours of central bank intervention, the dollar closed lower at DM1.5434, from DM1.5432; and at Y88.575 from Y88.045.

Sterling finished firmer against the dollar, but down of against the D-Mark, with the trade weighted index unchanged at 73.2.

■ Although the Swiss economy is benefiting from good growth and inflation, performances analysts said the main engine behind the recent appreciation was rising political uncertainty in Germany.

Markets are now nervous about whether Chancellor Kohl and his alliance partners will win sufficient support in next month's elections, to continue governing without having to enter a grand coalition.

The D-Mark had recently been bid up following renewed discussion of a multi-tier Europe. But investors, concerned that their exposure to Germany had become over-weight, have recently been diversifying into the franc.

Some observers believe the franc is vulnerable to a down-side correction, possibly aided by a cut in central bank rates. The central bank has recently been very accommodating in its money market operations, with a three month money bid of 3.38 per cent.

Mr Adrian Cunningham, senior international economist at UBS, said this might indicate

Swiss Franc

Against the D-Mark DM per SF1

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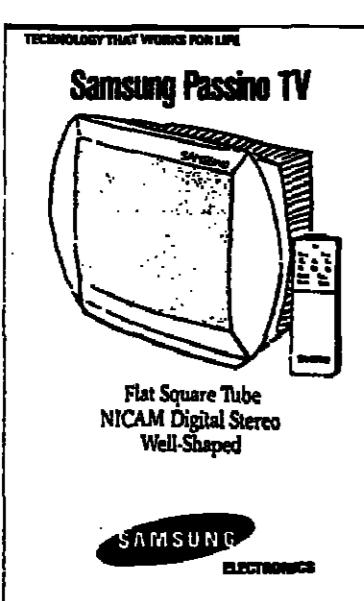
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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close September 14



AMERICA

Perplexing economic data ignored by Dow

Wall Street

US share prices tracked bonds yesterday morning, showing almost no reaction to troublesome economic data, writes Frank McGurty in New York. By 12.30pm, the Dow Jones Industrial Average was up 5.38 at 3,855.24, while the more broadly based Standard & Poor's 500 was 0.24 ahead at 467.76. In the secondary markets, the American SE composite inched 0.17 forward to 456.98 and the Nasdaq composite firmed 0.41 to 769.24.

Volume on the Big Board was surprisingly light, with only 15.1m shares traded by early afternoon.

The thin activity suggested that investors were perplexed about the current course of the economy. The day's economic news may have served to compound that uncertainty.

The Commerce Department announced a 0.8 per cent increase in August retail sales, a weaker figure than the 1.0 per cent gain which had been forecast. But in spite of the recent anxiety over inflation, the market could gain little comfort from the report. Retail sales, excluding cars, came in at 0.7 per cent, against expectations of a 0.4 per cent gain. That figure indicated that sales as a whole were stronger than suggested by the headline figure.

Stocks held steady on the release of the data, with the bond market offering no guidance whatsoever. With Treasuries showing no change on the day, share prices meandered within a narrow range throughout the morning.

The release of the Federal Reserve's Beige Book report on economic conditions at midday also elicited a muted reaction. In a finding that could trip up the markets as the afternoon progressed, the Fed said labour markets were "steady or tightening", suggesting the likelihood of upward pressure on wages.

Caught in the doldrums, the Dow industrials were drifting aimlessly. American Express managed to add 3% to \$31.1m, buoyed no doubt by its recent moves in the travel and credit card businesses. Caterpillar appreciated 3% to \$54 and IBM 5% to \$55.

Heightened speculation on the future of the NBC broadcasting network had only a marginal influence on the share prices of the companies involved.

Walt Disney, which was reported to be in talks on acquiring NBC from General Electric, slipped 3% to \$41.6m. GE climbed 5% to \$30.7m. Time Warner, also said to be discussing a possible deal, edged down 3% to \$30.7m.

CBS, a second media concern thought to be ripe for takeover, rose 5% to \$34.2m as bargain hunters moved in after an 8.1% drop in the previous session. Tuesday's setback reflected a downward grading by Donaldson Lufkin & Jenrette.

Following Kohlberg Kravis Roberts's \$2bn bid for Borden, Quaker Oats inspired buying from those who consider the food group as a likely target. The stock gained 3% to \$31.2m. In a mostly quiet technology sector, Compaq forged ahead 3% to \$107 and Compaq moved forward 3% to \$35.7m.

Canada

Toronto sought fresh impetus in the aftermath of the Quebec election as the market also awaited a speech later in the day in which Quebec's president elect Jacques Parizeau was expected to lay out his sovereignty plans. By late morning, the TSE-300 was 9.02 lower at 4,385.20.

Brazil

Sao Paulo rose 1.3 per cent in moderate early trade as investors welcomed a court ruling that cancelled a 1990 Telebras share subscription.

The Bovespa index of the 55 most active shares was up 7.15 at 55,253 just before midday. Overall turnover was R\$21.6m (\$2.71m).

Analysts remarked that prices rallied because the amount of Telebras shares in the market was likely to be reduced.

They added that unless the company appealed, Telebras would be required to return the funds to shareholders and that the refunded money would have to be adjusted for losses due to inflation.

The Telebras subscription was worth about \$160m in 1990, which at current market values would translate to about \$60m. Telebras preferred, which resumed trading after a half-hour suspension shortly after the opening, was quoted 4.00 per cent up at R\$3.50.

A bourse official said trading of the 1990 share subscription, which until now had been in the form of stock receipts, remained interrupted.

Gold and mining stocks retain gains

Gold and mining-related shares held on to gains on buying ahead of today's futures expiry, but some late selling took them off the session's highs.

The gold price held above \$390 an ounce and expectations continued that a push to \$400 lay ahead after short-term consolidation.

In comments before the parliamentary finance committee, Reserve Bank governor Mr

Chris Stals again warned of a possible rise in interest rates and said that the country could not support an instant abandonment of foreign exchange controls.

The overall index put on 15 at 5,873, industrial firms firmed 1 to 6.54% and the gold shares index advanced 36 to 2,453.

De Beers moved up 65 cents to R110.15, while its golds Vaal Reefs was R2 higher at R47.5.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of September 9 stocks	Dollar terms		Local currency terms		September 9 1994 % Change over week on Dec 93	September 9 1994 % Change over week on Dec 93	September 9 1994 % Change over week on Dec 93
		1994	1994 % Change	1994 % Change	1994 % Change			
Latin America	(209)	757.00	+1.1	+16.4	-3.2	590,847.90	-1.2	-3.2
Argentina	(25)	982.55	-1.2	-8.2	-2.2	1,375,735.948	-0.2	+2.8
Brazil	(57)	421.83	+1.4	+8.12	+25.9	1,200.33	+0.1	+1.1
Chile	(25)	720.14	+0.4	+30.5	+2.1	1,307.94	+0.0	+1.1
Colombia	(11)	901.69	-4.4	+39.9	+2.1	1,307.94	+0.0	+1.1
Mexico	(88)	978.23	+2.0	-3.0	+1.1	1,486.78	+1.1	+6.5
Peru	(11)	152.23	-0.2	+25.9	+2.1	208.44	+0.3	+51.7
Venezuela	(12)	564.04	+1.3	-4.7	+2.04.80	+1.3	+55.1	
Asia	(567)	285.88	+1.7	-1.8				
China	(18)	111.02	+4.4	-25.6		119.88	+4.2	-26.9
South Korea	(158)	138.92	+5.4	+17.6		143.30	+5.5	+16.8
Philippines	(18)	303.68	-3.8	-10.8		381.43	+4.4	-14.1
Taiwan, China	(80)	159.65	+0.4	+18.1		158.98	+0.2	+17.3
India	(78)	143.29	+0.3	+23.0		158.46	+0.3	+23.0
Indonesia	(67)	116.17	+4.0	-6.8		137.41	+4.4	-3.5
Malaysia	(105)	323.07	+2.7	-4.7		304.08	+2.7	-4.5
Pakistan	(15)	380.49	+0.1	+0.7		542.28	+0.3	+0.7
Sri Lanka	(5)	204.12	+0.9	+15.2		210.47	+0.9	+14.9
Thailand	(56)	455.05	-1.4	-8.3		454.48	-1.7	-10.1
Euro/Mid East	(26)	117.98	-3.3	-30.3				
Greece	(25)	222.27	-0.1	-2.4		352.38	-1.1	-4.3
Hungary	(3)	189.71	-0.4	+13.6		248.00	-1.0	+22.3
Jordan	(13)	155.77	-0.4	-5.9		223.35	-0.8	-5.7
Poland	(12)	635.43	-4.2	-22.3		922.73	-4.7	-16.4
Portugal	(25)	129.36	+0.9	+13.7		138.72	-0.2	+1.1
Turkey	(40)	112.08	-7.3	-47.3		1,778.76	-7.3	+22.3
Zimbabwe	(5)	265.10	+0.4	+31.7		318.42	+0.5	+49.5
Composite	(891)	370.24	+1.1	+4.1				

Indices are calculated at week-end, and weekly changes are percentages referenced from the previous Friday. Data date: Dec 1993=100 except those noted. White area: (1989-1990); (1990-1991); (1991-1992); (1992-1993); (1993-1994); (1994-1995); (1995-1996); (1996-1997); (1997-1998); (1998-1999); (1999-2000); (2000-2001); (2001-2002); (2002-2003); (2003-2004); (2004-2005); (2005-2006); (2006-2007); (2007-2008); (2008-2009); (2009-2010); (2010-2011); (2011-2012); (2012-2013); (2013-2014); (2014-2015); (2015-2016); (2016-2017); (2017-2018); (2018-2019); (2019-2020); (2020-2021); (2021-2022); (2022-2023); (2023-2024); (2024-2025); (2025-2026); (2026-2027); (2027-2028); (2028-2029); (2029-2030); (2030-2031); (2031-2032); (2032-2033); (2033-2034); (2034-2035); (2035-2036); (2036-2037); (2037-2038); (2038-2039); (2039-2040); (2040-2041); (2041-2042); (2042-2043); (2043-2044); (2044-2045); (2045-2046); (2046-2047); (2047-2048); (2048-2049); (2049-2050); (2050-2051); (2051-2052); (2052-2053); (2053-2054); (2054-2055); (2055-2056); (2056-2057); (2057-2058); (2058-2059); (2059-2060); (2060-2061); (2061-2062); (2062-2063); (2063-2064); (2064-2065); (2065-2066); (2066-2067); (2067-2068); (2068-2069); (2069-2070); (2070-2071); (2071-2072); (2072-2073); (2073-2074); (2074-2075); (2075-2076); (2076-2077); (2077-2078); (2078-2079); (2079-2080); (2080-2081); (2081-2082); (2082-2083); (2083-2084); (2084-2085); (2085-2086); (2086-2087); (2087-2088); (2088-2089); (2089-2090); (2090-2091); (2091-2092); (2092-2093); (2093-2094); (2094-2095); (2095-2096); (2096-2097); (2097-2098); (2098-2099); (2099-2010); (2010-2011); (2011-2012); (2012-2013); (2013-2014); (2014-2015); (2015-2016); (2016-2017); (2017-2018); (2018-2019); (2019-2020); (2020-2021); (2021-2022); (2022-2023); (2023-2024); (2024-2025); (2025-2026); (2026-2027); (2027-2028); (2028-2029); (2029-2030); (2030-2031); (2031-2032); (2032-2033); (2033-2034); (2034-2035); (2035-2036); (2036-2037); (2037-2038); (2038-2039); (2039-2040); (2040-2041); (2041-2042); (2042-2043); (2043-2044); (2044-2045); (2045-2046); (2046-2047); (2047-2048); (2048-2049); (2049-2050); (2050-2051); (2051-2052); (2052-2053); (2053-2054); (2054-2055); (2055-2056); (2056-2057); (2057-2058); (2058-2059); (2059-2060); (2060-2061); (2061-2062); (2062-2063); (2063-2064); (2064-2065); (2065-2066); (2066-2067); (2067-2068); (2068-2069); (2069-2070); (2070-2071); (2071-2072); (2072-2073); (2073-2074); (2074-2075); (2075-2076); (2076-2077); (2077-2078); (2078-2079); (2079-2080); (2080-2081); (2081-2082); (2082-2083); (2083-2084); (2084-2085); (2085-2086); (2086-2087); (2087-2088); (2088-2089); (2089-2090); (2090-2091); (2091-2092); (2092-2093); (2093-2094); (2094-2095); (2095-2096); (2096-2097); (2097-2098); (2098-2099); (2099-2010); (2010-2011); (2011-2012); (2012-2013); (2013-2014); (2014-2015); (2015-2016); (2016-2017); (2017-2018); (2018-2019); (2019-2020); (2020-2021); (2021-2022); (2022-2023); (2023-2024); (2024-2025); (2025-2026); (2026-2027); (2027-2028); (2028-2029); (2029-2030); (2030-2031); (2031-2032); (2032-2033); (2033-2034); (2034-2035); (2035-2036); (2036-2037); (2037-2038); (